Annual Report and Accounts
for the year ended 31 March 2006

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ANNUAL REPORT & ACCOUNTS
Contents

Section 1

1.1 Who we are and what we do

We are the national body in Scotland responsible for the development, accreditation, assessment and certification of qualifications other than degrees. Our main functions are set out in the Education (Scotland) Act 1996. We are a non-Departmental Public body, sponsored by the Education Department of the Scottish Executive.

Our core purpose is to set and maintain standards in education and training through qualifications and assessment across schools, colleges and in workplace learning. In each of these three very different sectors, we are responding to a range of policy trends and drivers.

1.2 Our operating environment

1.2.1 Trends and drivers

In the school sector, the Scottish Executive is leading work on 'A Curriculum for Excellence' to create a curriculum which will best meet the needs of every young person. The proposals which will emerge from this process will have a significant impact on the future of National Qualifications, and the way they are assessed, in years to come. SQA is a full member, along with Learning and Teaching Scotland (LTS) and Her Majesty's Inspectorate of Education (HMIE), of the partnership developing 'A Curriculum for Excellence'. The first of these changes is the introduction of new Skills for Work qualifications with a focus on 14-16 year olds, with the first students completing their qualifications in the summer of 2006.

In England, the government has recently set out plans for the reform of qualifications for 14-19-year-olds. The proposals to introduce vocational diplomas will lead to a new approach to vocational education and qualifications in schools, and bring much greater attention to this area.

Progress in the skills agenda will also lead to changes in Scottish Vocational Qualifications. Sector Skills Agreements between employers, agencies and government are being published, outlining the skills situations faced by various sectors of the economy, and the actions required. More detailed Sector Qualifications Strategies outline the changes to qualifications which will be required.

Demographic changes will start impacting on Scotland to a much greater degree than previously. Over the next five years, there will be a drop of 10,000 fourth to sixth year pupils in publicly-funded schools in Scotland. While the numbers of working adults are likely to remain constant for the next five to ten years, after that there will be a drop in the number of young people entering the workforce.

There will also be further developments in the e-agenda, leading to greater flexibility in qualifications, and a more focused approach to meeting the needs of

all of SQA's candidates. All these changes will lead to significant developments in qualifications in Scotland over the next few years.

1.2.2 Our customers and stakeholders

Each of these developments involves us in working closely with the 1,470 centres that offer our qualifications.

The people and organisations we work with, and the way we refer to them
Customer — Any individual or organisation that SQA or SQA staff interact with in the performance of their duties.

SQA staff deal with five main types of customer: centres; candidates; stakeholders; partners; and internal colleagues.

SQA has more direct linkage with some customers than others.

A **centre** has approval to offer SQA provision. SQA must also deal with prospective centres that are looking to gain centre approval.

A **stakeholder** has an interest and/or input to the work of SQA.

A **partner** has a working relationship and/or agreement with SQA.

We are also active participants in informing the fast-moving Scottish education and training sectors, working closely with partners in the developments mentioned above, and carrying out analyses to inform policy in each of these areas.

This close collaboration carries through to discussions with stakeholders as part of our annual organisational planning process. Each year, we review SQA priorities, and set out the key areas of focus for us in our Corporate & Business Plan.

1.3 Annual Report 2005–06

This Report focuses on our progress in achieving the objectives set out in our Business Plan for 2005–06. Our six high-level Corporate Objectives in this period were:

Key Objectives	Corporate Objectives
Objective 1 Provide qualifications and support to match the needs of individuals, society and the economy of Scotland	1.1 Deliver assessment and quality assurance of SQA's qualifications 1.2 Deliver the Accreditation function 1.3 Continue to implement the reviews of National Qualifications, Higher National Qualifications and Scottish Vocational Qualifications 1.4 Introduce new Skills for Work, and new and revised Professional Development Awards, Scottish Progression Awards and National Certificates 1.5 Revise and extend provision at Access levels 1 & 2 1.6 Provide materials and training to support teaching and assessment, and increase understanding of SQA qualifications and progression

	1.7 Implement the reviews of Quality Assurance of External Assessment, and Quality Assurance of Internal Assessment 1.8 Strengthen credit transfer between qualifications
Objective 2 Inform and support national policy development and implementation	2.1 Implement the outcomes of policy developments in relation to qualifications and assessment 2.2 Provide analysis of trends and issues to inform developments 2.3 Provide information and advice to the Scottish Executive and key stakeholders 2.4 Establish strategic relationships with key partners 2.5 Play a leading role in the implementation of SCQF
Objective 3 Re-design our services and processes to make them better to use and more efficient	3.1 Expand web-based services for the management of candidate information 3.2 Establish SQA's website as the primary source of information and support for our qualifications 3.3 Expand provision of e-assessment and e-learning resources 3.4 Introduce new web-based marking and quality assurance processes 3.5 Introduce an improved Scottish Qualifications Certificate 3.6 Complete a review of our policy and processes for entry charges 3.7 Implement an integrated Human Resources and Financial system 3.8 Comply with the principles of Best Value
Objective 4 Develop a highly-skilled, motivated and effective workforce	4.1 Implement a workforce development plan 4.2 Strengthen SQA's partnership working with trade unions 4.3 Implement an estates and facilities management programme
Objective 5 Raise the profile of Scottish education and training internationally to benefit the Scottish economy and users of Scottish qualifications	5.1 Seek alliances of Scottish, UK and international organisations to promote Scottish education and training overseas
Objective 6 Develop new markets and income streams	6.1 Implement the commercial strategy 6.2 Establish partnerships with organisations with a track record in education and training 6.3 Extend the range of funding sources 6.4 Develop e-commerce capability

Measuring SQA's performance

In this year's report for the first time we have split the reporting of performance for these indicators across our Corporate Objectives, and added some analysis of trends over time. This approach provides a more coherent account of progress made during this period.

Section 2

Objective 1: Provide qualifications and support to meet the needs of individuals, society and the economy of Scotland

1.1 Deliver assessment and quality assurance of SQA's qualifications

One of our primary responsibilities is the diet of assessments for National Courses for candidates in schools and colleges across Scotland.

There is a year-round cycle of assessment design, recruitment of markers and other appointees, quality assurance of course-work, and processing of appeals, in addition to the annual peak of assessment and certification activity between May and August. We monitor our progress across this range of tasks throughout the year and deliver the main run of certification in August, in accordance with the key performance measures agreed with the Scottish Executive. In financial year 2005–06, we met all the agreed performance targets for August certification. In the August 2005 Diet of National Courses, we certificated 142,799 candidates.

SQA's Performance Measures for August 2005 Certification

National Qualifications Certification Performance Measures for August 2005	Our performance
▪ **Issue of results**	
Electronic file to be sent to UCAS on 3 August (subject to confirmation), in an agreed format, showing the cumulative achievement of all relevant candidates identified by UCAS and notified to SQA.	The file on results for higher education applicants was issued to UCAS on 2 August, in line with agreed schedule.
Electronic file to be sent by 5 August to those centres that submit data electronically. The file format has been updated from last year to include a completion date field and details are available from SQA. The file will contain results for all candidates registered by the centre and entered for National Courses and units associated with these courses in the diet for 2005.	Electronic versions of the statements of results (SORs) were sent to centres on Thursday 4 August (after 16:30 hours). SEEMIS received their files on the same day for onward transmission to their centres. Directors of Education were able to access candidate results on Monday 8 August via a secure site on SQA's website. Files were placed in the secure site on the evening of Friday 5 August.
Paper statement of results summary to be sent by receipted delivery courier to all centres by 8 August for receipt not later than 12 noon on 9 August.	Paper reports of candidate results (SORs) for centres were despatched via special delivery service. Couriers were utilised for delivery to outlying areas. A process was in place to ensure each package delivered was signed for by the receiving centre.
By 9 August, certificates, or letters advising unsuccessful achievement, to be delivered to all candidates who are due to receive a certificate in	The print files for all certificates were received at the external printers by Friday 29 July, ahead of the Monday 1 August schedule. By

respect of the Summer Diet of National Courses. If SQA is aware of any circumstances that will prevent specific certificates or letters from being issued, SQA will inform the relevant centre(s) by 9 August of the certificates or letters that will be delayed and the reasons for this. It would be the responsibility of such centre(s) to advise their candidates accordingly. SQA will notify centres of all cases where a final grade was computed on the basis of partial data (other than where a formal absence has been recorded) by 9 August.	Monday 1 August, all certificates had been printed. Certificates were despatched on time for delivery on 9 August.
SQA will issue group award certificates weekly throughout the year. However, this will be suspended from 22 July to 5 August to allow certification of the diet of National Courses.	This year, processing of unit results for Colleges and ETP continued during the main diet with information being managed into the system as time allowed. Certificates were issued to eligible candidates when the certification process, outwith the main diet, resumed on 10 August.

National Qualifications Certification Performance Measures	Our performance
▪ **Accuracy**	
Certificates issued by SQA will be an accurate representation of the data held on SQA's database. This excludes cases where SQA know that the data held on the database is not yet complete or where inaccurate data has been supplied.	National Qualifications Courses

Course Estimates

As at 21 July, all of the 309,100 estimates expected had been processed.

Entries and Results

Following the stabilisation of the database on 23 July, the final total of open entries for the external assessments was 309,239. Of these cases, there were 13,201 entries where the candidate did not attempt any part of the external assessment, 212,893 entries which resulted in a pass, and 30,042 entries which narrowly failed (band 7).

Of the 212,893 external assessment entries which resulted in a pass, 4,925 failed to achieve the corresponding course award due to one or more of the contributing units either: having a result of fail; having a missing entry; or having a missing result. Of these 4,925 entries, 755 involved the non-submission of a unit result, 1,310 involved a missing unit entry and therefore 2,860 must be due to a failed unit result.

Standard Grade estimates and internal assessment marks

As at 15 July, 100% of forms with Standard Grade estimates and Internal Assessment marks had been received and processed. |

▪ **Queries**	
Where a centre reports the non-delivery of a certificate, missing entries or other queries, the SQA will: • **Acknowledge receipt of the query within 3 working days and will resolve the query within a further 10 working days if possible;** • Indicate the reason for the delay and give a date by which the query will be resolved, if it has not been possible to resolve the query within this timescale.	*Candidate Advice Line* The Candidate Advice line was set up on the third floor of Hanover House between 9 August and 12 August. The advice line was integrated into the Customer Relations & Marketing unit utilising existing workstations and telephones. This enabled utilisation of the Customer Contact Centre call logging and management system with 'real time' monitoring of call volumes. Staff were also able to continue with their own work as well as answering candidate enquiries. The Boardroom was set up as a contingency but was released back to facilities on Wednesday 13 August as call volumes were as planned. Calls to the Advice Line number were diverted to the Customer Contact Centre from Friday 12 August. Full details of the call volume taken each day and call type received by the Candidate Advice line over the 9 to 12 August period have been collated for management information. The figures indicate call volumes have stabilised over the last three years. Planning for 2006 will require to take into account the new certificate layout and Candidate Online. *Centre Helpline for Schools/Colleges* The Centre Helpline ran from 5th – 26th August. Queries were logged and resolved within the specified turnaround times stated in the performance measures.
▪ **Appeals**	
Appeals clearly marked as 'Urgent', and submitted on time with all necessary information and supporting evidence requested by SQA in the correct format, will be dealt with – and results sent to centres – by 20 September 2005 where the number of urgent appeals does not exceed 3,000.	Urgent Appeals were processed and reports on results were produced and issued to 177 presenting centres and 82 Universities/ Colleges. These reports were issued four days ahead of schedule. The final figure was 546, representing a 17% reduction on the 2004 figure of 659.

Each year, we look for any opportunities to improve our services. In 2005–06, we undertook a detailed analysis of our malpractice policy to ensure that our procedures continued to be appropriate and fair to all, and to comply with emerging Human Rights Legislation.

We gathered legal advice and consulted key stakeholders, including discussions with other UK awarding bodies, to develop revised procedures. These have been designed and implemented to ensure that decisions are consistently based on formally documented and comprehensive evidence from all parties. We then

implemented a detailed communication plan which ensured that our centres and stakeholders were aware of, and understood, the revised procedures. These revised procedures will be fully implemented in the 2006 Diet, and we will carry out an evaluation of their effectiveness in 2006–07.

1.2 Deliver the Accreditation function

In 2005–06, we sought and received Ministerial approval for two significant changes to SQA's Accreditation function.

Firstly, the Deputy First Minister approved our proposals to permit the Accreditation Committee to delegate its accreditation decision powers to our Accreditation Co-ordination Group. This change improves the service our Accreditation function offers to awarding bodies, reducing our target response time from 60 to 30 working days from receipt of request. Since implementing this change in January 2006, we have achieved an average response time of 26 working days.

Secondly, we also consulted awarding bodies, Sector Skills Councils and other stakeholders about an extension to our Accreditation function in 2005–06. The consultation took place during June – September 2005, proposing two changes to the Accreditation function so that it would now also cover:

♦ vocational qualifications which are directly and exclusively based on National Occupational Standards
♦ qualifications which are required by other industry regulatory bodies

We approached 154 organisations for their views and received a strong positive response, with 93% of responses in favour of the first proposal and 82% in favour of the second. In light of this strong support for our proposals, we secured Ministerial support for both of these extensions to function in March 2006 and we plan to implement the accreditation of these qualifications by December 2006.

1.3 Continue to implement the reviews of National Qualifications, Higher National Qualifications and Scottish Vocational Qualifications

National Qualifications Review

Since 2001, SQA has been working with centres and stakeholders to carry out a phased review of our National Qualifications. This National Qualifications Review aimed to identify where we could improve and clarify administrative and assessment arrangements. The Review also looked at potential to enhance and simplify Course Arrangements documents including Unit and Course specifications.

In academic year 2005–06, revised Courses were available in the following subjects:

Course	Acc 3	Int 1	Int 2	H	AH
Accounting					X
Administration		X	X	X	
Computing					X
Early Education and Childcare				X	
Economics			X	X	X
Information Systems			X	X	
Media Studies	X				
Physical Education	X				X
Religious Moral and Philosophical Studies		X	X	X	
Travel and Tourism		X	X	X	

The following revised Courses, which were launched in November 2005, will be available for use in the academic year 2006–07:

Course	Acc 3	Int 1	Int 2	H	AH
Administration					X
Art and Design	X	X	X	X	
Art and Design: Design					X
Art and Design: Expressive					X
Architectural Technology				X	
Building Construction				X	
Business Management		X	X	X	X
Economics		X			
Gaelic (Learners)	X	X	X	X	X
Gàidhlig	X	X	X	X	X
Information Systems					X
Modern Studies		X	X	X	
Music	X	X	X	X	X
Philosophy			X	X	
Politics			X[1]	X	
Sociology		X[1]	X	X	

In a parallel development, the National Qualifications Steering Group also endorsed a policy for dealing with low uptake National Courses. The policy demands that we maintain a balanced portfolio of qualifications which meets the long-term needs of candidates, Scottish education and the Scottish economy, and which ensures sufficient numbers of candidate entries to sustain a meaningful national standard. We began to implement this policy with a letter to our centres in October 2005, and full information is available at our website at www.sqa.org.uk.

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[1] In Politics (Int 2) and Sociology (Int 1) Units have been developed rather than a Course.

Modernising Scotland's Higher National provision

SQA, Scotland's Colleges and other stakeholders — such as the Scottish Funding Council (SFC), the Colleges Open Learning Exchange Group (COLEG) and the Scottish Further Education Unit (SFEU) — began the Higher National Modernisation project in August 2003. The project aims to produce a coherent, top quality catalogue of Higher National Certificates, Diplomas and Units which is fit for purpose and will continue to meet the current and future needs of students, employers and the Scottish economy. The programme will run until 2008, with the following key objectives:

♦ updating the knowledge and skills of candidates to enable them to operate in a modern, dynamic economy

♦ rationalisation to produce a catalogue that is cost-effective for both SQA and colleges to operate and manage

♦ reduction of the assessment burden and e-enablement of our qualifications

♦ improved guidance on all aspects of qualifications design and validation to improve consistency of the national standard, and enhance delivery, assessment and attainment

♦ increased funding to support the modernisation programme

In partnership with colleges, we are revising both HNC/Ds where we are working to national standards, and specialist HNC/Ds where the qualifications are particularly tailored to local employers' needs. Work in the remaining two years of the project will focus on revision of specialist HNC/Ds, while development to date has concentrated on those HN Group Awards where SQA is co-ordinating a larger number of centres (consortium developments).

In 2005–06, we validated six specialist HNC/Ds and 39 consortium HNC/Ds.

The revised HNC/Ds and Units are more closely aligned to National Standards than previously, with greater involvement of employers, professional bodies and Sector Skills Councils in both designing and validating these qualifications. The awards also consider articulation and progression opportunities for candidates to a greater extent, with increased flexibility and accessibility where appropriate. Colleges have welcomed the reduced overall assessment burden for revised Higher National Qualifications. They also value the provision of support in assessing candidates through making available guidance and examples of assessments.

Higher Nationals at 80

Higher National Certificates and Higher National Diplomas were introduced in 1925 to meet the demand for skilled labour. Eighty years on, these qualifications still satisfy this need.

To celebrate the 80th anniversary of HN Qualifications, a year-long celebration began in August 2005. These celebrations aimed to promote HN Qualifications as relevant to the modern Scottish economy, and to recognise the achievement of the

tens of thousands of candidates who have achieved HN Qualifications over eight decades.

Working in close partnership with Scotland's Colleges, we held a celebration dinner at the Signet Library in Edinburgh in November 2005. A range of promotional materials has been produced for use in colleges, and a book has been published charting the development of Higher National Qualifications since 1925.

1.4 Introduce new Skills for Work, and new and revised Professional Development Awards, Scottish Progression Awards, and National Certificates

Skills for Work Courses

In August 2005, we began piloting a new range of Skills for Work Courses. These new National Courses are designed primarily for young people in the third and fourth year of secondary education to offer a variety of practical experiences that are linked to particular careers and deliver employability skills. Young people taking one of these new Skills for Work Courses will normally go to a local college for some of their time, even though they are still officially a pupil at school. This will mean learning in a different environment, meeting new people and facing new challenges.

21 Local Education Authorities, 38 colleges, 145 schools and over 1,400 young people are participating in the first phase of the pilot. Most current candidates are in S3 and S4 at secondary school and will complete their course by 2007, although more than 200 learners will complete their Course in 2006. In 2005–06, five Courses are being piloted:

Course	Level
Construction Crafts	Int 1
Early Education and Childcare	Int 1 & Int 2
Sport and Recreation	Int 1
Financial Services	Int 2

SQA and its partner organisations are working closely with the schools and colleges involved to provide comprehensive support and evaluate the effectiveness of these new qualifications. We have now also completed preparations for the second phase of this Skills for Work pilot. The following Courses will be implemented in August 2006:

Course	Level
Practical Experiences: Construction and Engineering	Acc 3
Rural Skills	Int 1
Hairdressing	Int 1
Construction Crafts	Int 2
Sport & Recreation	Int 2

Participation in the second phase of the pilot has increased to include all local authorities, and over 4000 young people are planning to take up the new Courses in 2006–07.

The evaluation of the Phase 1 Courses is now well underway. The results of this evaluation will be taken into account before the roll-out of Skills for Work Courses begins in 2007–08.

Portfolio Review

In 2005–06, SQA completed a review and consultation on our portfolio of qualifications. The aim of this review was to establish a coherent system of qualifications which is fit for purpose for the range of Scottish learners.

The Portfolio Review made a number of recommendations:

National Progression Awards

National Progression Awards (NPAs) will build on the current system of Scottish Progression Awards. Their purpose will normally be to assess and certificate a defined set of skills and knowledge in a specialist vocational area. It is envisaged that NPAs will mainly be used in post-compulsory education. NPAs will be designed to certificate training programmes, including return to work programmes for the unemployed, and short programmes of learning designed to be followed part-time by those already in work – ie programmes of continuing work skills development.

National Certificates

National Certificates (along with the other large Group Awards, such as HNC/Ds) will normally aim to develop a range of knowledge and skills, including transferable skills, such as Core Skills. Each National Certificate will also have specific aims relating to the subject or occupational area – usually, they will be designed to prepare candidates for further progression while certificating vocational skills and knowledge. National Certificates will be aimed principally at 16–18 year olds and adults in full-time education, usually in a further education college.

Professional Development Awards

Professional Development Awards (PDAs) will be for those already in a career or vocation who wish to extend or broaden their skills base, usually after completing a degree or vocational qualification relevant to their area of interest. PDAs will assess and certificate progression in a defined set of specialist occupational skills.

Overview of SQA's revised portfolio of qualifications

SCQF level	Units	Courses	NPAs	National Certificates	HNCs	HNDs	PDAs	SVQs	Customised Awards
12	✓						✓		
11	✓						✓	✓	
10	✓						✓		
9	✓						✓	✓	
8	✓					✓	✓		
7	✓	✓			✓		✓	✓	✓
6	✓	✓	✓	✓			✓		
5	✓	✓	✓	✓				✓	
4	✓	✓	✓	✓				✓	
3	✓	✓	✓	✓					
2	✓	✓	✓	✓					
1	✓								
SCQF credit points in the qualification	Variable	Varies with level	Minimum 12 at all levels	72 points at levels 4, 5 and 6*	96	240	Minimum 12 at level 6; 16 at other levels	Variable	Variable to meet customer needs

We have been working with centres and other stakeholder organisations to agree the implementation approach and timetable to take these recommendations forward over the next three to five years. The development approach adopted ensures that each occupational sector has a coherent range of qualifications to support employees' learning and assessment needs.

In 2005–06, for 12 priority sectors, we have completed:

♦ identification of competitors' qualifications
♦ identification of gaps in SQA's portfolio
♦ analysis of market needs, considering national, regional and local initiatives in the occupational area
♦ consideration of progression and articulation for candidates, within and across occupational areas
♦ determination of which qualifications are required to satisfy the market need

The 12 priority sectors are:

     Business Administration, including Financial Services
     Care
     Hospitality
     Engineering
     Computing
     Construction
     Sport & Leisure
     Art & Design
     Communication and Media
     Music

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* At levels 2 and 3, National Certificates will have a credit value of 54 SCQF credit points. At levels 2 and 3, National Certificates will continue to offer the flexibility currently offered by Scottish Group Awards at Access 2 and 3, and double and triple awards will also be possible.

| Hairdressing and Beauty |
| Travel & Tourism |

We have also put in place the management arrangements that will oversee the implementation of development work for non-advanced Group Awards. We have set up a National Qualifications Key Partners' Group, which will act as a forum for external stakeholders to provide strategic advice for these developments. Additionally, we have established the NQ Group Award Programme Board, which includes Scottish Executive representation.

1.5 Revise and extend provision at Access levels 1 & 2

Access 1 and 2 qualifications provide opportunities for candidates who require additional support for their learning. They are qualifications which offer opportunities for progression either to further provision at the same level, or to the next level.

During 2005–06, we revised Skillstart Group Awards at Access 2 and we developed and published a further twelve Units at Access 1 Independent Level (supplementing the seven existing Units which were first introduced in 2003). We also held four seminars in Autumn 2005 for centres delivering Access 1 and 2 provision.

1.6 Provide materials and training to support teaching and assessment, and increase understanding of SQA qualifications and progression

SQA 'Connecting with Customers'

SQA held a 'Connecting with Customers' conference in Glasgow in May 2005. This was our first major customer conference, and complemented the series of local customer events we hold around Scotland each year.

The aims of the Conference were to:

♦ update our customers and stakeholders on recent SQA developments, achievements and progress;
♦ create an opportunity for customers to meet a wide range of SQA specialists, customer relations contacts and our management team (and for them to meet the customers)
♦ bring together customers and SQA staff with key stakeholder organisations
♦ provide customers with a single forum for exchanging views and discussing customer issues, both operational and strategic
♦ offer a wide programme from which customers could choose topics of interest

More than 650 customers attended the conference, and 82% of delegates reported that the event had satisfied their objectives. Delegates reported an overall satisfaction rating for the event of 4.28 out of 5 which is one of the highest ratings ever achieved for an SQA event.

SQA Customer Satisfaction Survey 2005–06

Since 2003–04, we have conducted an annual independent survey of customer satisfaction with our services. We use customer feedback from the survey to focus on areas where we need to improve our services.

Our 2005–06 survey noted a small improvement in overall customer satisfaction on the previous year's results. Our customers' average satisfaction score was 80.0% in 2005–06, compared to 79.8% in 2004–05 and 79.4% in 2003–04. The independent consultant who carries out the research on our behalf also compared our results to those of other clients in a wide range of sectors. This comparison shows that SQA's customer satisfaction score is above the average for this group.

In 2005–06, the satisfaction index for our customers in each sector was:

	2004–05	2005–06	Change
Schools	81.0%	81.8%	0.8% increase
Colleges	74.9%	75.3%	0.4% increase
Training sector	78.6%	79.5%	0.9% increase

While these results indicate high levels of customer satisfaction with SQA products and services, customers commented on a number of areas for improvement, such as data management and communication. We will be taking forward these suggestions in 2006–07.

Supporting our customers

Our Understanding Standards programme was expanded this year, with a programme of 26 Professional Development Workshops which were attended by more than 1,900 teachers and lecturers. The feedback we received on these was overwhelmingly positive.

Our catalogue of support materials, published in print and on our website, continued to grow. SQA produced over 1,200 support materials to help the delivery, assessment and promotion of its qualifications. This includes publications designed to:

♦ widen and deepen understanding of National Qualifications
♦ provide additional support for our Appointees
♦ support the use of ICT in assessment and quality assurance
♦ expand our range of Open Learning Packs for Higher National qualifications
♦ support delivery of the revised Higher National Qualifications

1.7 Implement the reviews of Quality Assurance of External Assessment, and Quality Assurance of Internal Assessment

Quality Framework

At the heart of SQA's role in Scottish education is the maintenance of national standards. We work in partnership with our approved centres to achieve shared goals of excellence and consistency. This helps us to ensure that SQA qualifications continue to meet the requirements of candidates, employers and other users of our qualifications.

Our quality assurance framework covers all aspects of our qualifications, from initial design and development through to assessment and certification of candidates. Its principal aim is to ensure that standards are set and applied consistently.

During 2005–06, we reviewed and revised our quality assurance framework to take account of changing legislation, new technologies and our changing portfolio of qualifications. We published our Quality Framework in March 2006, setting out a summary of responsibilities and criteria for our centres and stakeholders. This replaces an earlier publication *Quality Assurance Principles, Elements and Criteria*. It uses simplified language with more of a focus on the needs of candidates and on working in partnership with centres. The updated Framework, which reflects the practice that has been emerging over recent years, will take effect in academic year 2006–07. We will review the changes after 12 months from implementation.

The revised Quality Framework is a starting point for the revision of supporting policy and guidelines relating to quality systems within SQA centres, to provide clear guidelines for centres about how SQA supports and monitors standards. This work will continue through 2006.

1.8 Strengthen credit transfer between qualification

The transfer of credit between qualifications is important in enabling candidates to access a wide range of learning and employment opportunities. We contribute to the transfer of credit partly through our involvement in developing the Scottish Credit and Qualifications Framework (SCQF). There is more information about the SCQF at objective 2.5.

In 2005–06, SQA also commissioned a review of the arrangements for credit transfer between SQA and other awarding bodies including qualifications from universities, professional bodies, and non SQA awarded SVQs and NVQs. The review was carried out by conducting a survey of SQA Qualifications Development staff, by holding interviews with SCQF and Accreditation staff and by examining the processes of SCQF and other UK frameworks.

The review made a number of recommendations which we will be discussing with our committees and stakeholders, and implementing, in 2006–07.

Uptake of SQA qualifications

This table shows trends in entries for our qualifications over the period from academic year 2001–02 to academic year 2004–05.

	2001–02	**2002–03**	**2003–04**	**2004–05**
Standard Grade	456,288	453,450	433,855	411,181
National Units	1,438,176	1,461,605	1,750,544	1,721,338
Access 2	1,687	2,264	2,344	2,138
Access 3	3,567	9,154	12,759	15,820
Intermediate 1-2	87,861	96,940	111,514	123,753
Higher	164,004	166,885	165,575	164,142
Advanced Higher	15,749	16,998	17,185	17,146
Scottish Vocational Qualifications	41,863	39,418	44,119	47,149
Higher National Certificates	21,872	18,168	19,097	19,496
Higher National Diplomas	11,857	12,727	12,916	11,503

Detailed analyses of these trends in entries are included in our Annual Statistical Report and Annual Statistical Digest. These are available on our website www.sqa.org.uk.

Measuring SQA's performance for Objective 1

The targets for the following range of performance indicators represent the level of achievement set for the final year of SQA's Corporate Plan 2003–06. Progress towards meeting these targets is indicated by the level of achievement for the current financial year.

Indicator	Purpose	Target for 2005–06	2005–06	2004–05	2003–04	Comment
Objective 1 – Provide qualifications and support to match the needs of individuals, society and the economy of Scotland						
Ensure that the examination diet and certification arrangements continue to meet the published schedule and agreed performance indicators	Successful delivery of the August diet of certification is a key business driver for SQA	**See table for details of performance measures**	**Achieved – see table for details of performance**	Achieved	Achieved	Successful delivery of August certification since 2001. Performance in accordance with or exceeding performance measures agreed with the Scottish Executive.
Ensure high customer satisfaction ratings for the credibility of SQA qualifications ▪ Standard Grade ▪ Intermediate 1 & 2 ▪ Highers ▪ Advanced Highers ▪ HNC/Ds ▪ SVQs	To assess whether our qualifications are meeting the needs of individuals, society and the economy of Scotland	**80%** **80%** **90%** **90%** **90%** **80%**	**74%** **73%** **88%** **88%** **90%** **78%**	84% 78% 92% 89% 91% 80%	78% 72% 91% 87% 83% 74%	There has been a steady increase in credibility ratings for qualifications with the exception of this year, when ratings have in some cases dipped, in particular for Standard Grade. This may be a reflection of centres using the Intermediate qualifications as an alternative stepping stone to Highers. SQA has initiated work with stakeholders to look at the future of National Qualifications, looking in particular below Higher level.
Ensure an 80% customer satisfaction rating for SQA's quality assurance arrangements	The effectiveness of SQA's Quality Framework in supporting credibility is a key driver to ensure that our portfolio of qualifications meets future needs	**80%**	**81%**	80%	79%	Results show an increasing trend over time.
Respond to customer complaints within published timescales	To assess our performance in managing customer relations to generate customer loyalty		**90% of complaints acknowledged within 2 days** **77% received full response within 10 days**	89% of complaints acknowledged within 2 days 62% received full response within 10 days	Not available – new system under development	Our new Customer Charter sets out performance measurements and targets. Performance shows an improvement on last year.

Indicator	Purpose	Target for 2005–06	2005–06	2004–05	2003–04	Comment
Achieve 75% customer satisfaction for consultation and responsiveness	To assess our performance in managing customer relations to generate customer loyalty	**75%**	**74%**	74%	72%	Consistent performance.

Objective 2: Inform and support national policy development and implementation

In keeping with our statutory responsibilities, SQA provides expert advice to Ministers and the Scottish Executive on qualifications and assessment in Scotland. Our commitment to implementing the Lifelong Learning Strategy and the outcomes of 'A Curriculum for Excellence' are examples of SQA working with partners and stakeholders to deliver the priorities in education and training.

2.1 Implement the outcomes of policy developments in relation to qualifications and assessment

Scottish Survey of Achievement

In 2005, around 36,000 pupils at P3, P5, P7 and S2 took part in the first Scottish Survey of Achievement, as part of the Scottish Executive's Assessment is for Learning programme. Around 1,300 schools across Scotland participated in the survey.

This 2005 survey aimed to provide:

♦ national estimates of pupils' English language and core skills attainment
♦ comparisons over time and by sub-group - for example, to compare attainment by gender or by local authority area
♦ information about pupils' learning contexts

In preparation for the 2005 survey, SQA worked in partnership with our Sponsor Department and Learning and Teaching Scotland. The Scottish Executive has responsibility for publishing the final report. We were responsible for:

♦ developing, quality assuring, printing and distributing approximately 170 assessment tasks
♦ developing, quality assuring and printing tasks to be used in the practical part of the survey
♦ developing training materials to be used in the field officer training
♦ training teachers acting as field officers in the practical part of the survey
♦ central marking of approximately 100,000 completed booklets
♦ moderating around 4,000 writing scripts
♦ data capture
♦ writing up task development for the final report

Reading, numeracy and writer's craft tasks used in the survey were made available to teachers through the 5–14 National Assessment Bank, which SQA continues to manage.

SQA met all its responsibilities within the timescales set by the Scottish Executive Education Department.

In preparation for the launch of the 5–14 national assessments in the medium of Gaelic, SQA has been responsible for:

♦ translating 2500 mathematics items
♦ translating extended writing and writer's craft tasks
♦ developing and quality assuring reading tasks

The 2005 survey looked at English language with Core Skills, while the 2006 survey will examine Social Subjects (enquiry skills) with Core Skills. Future years will focus on Science and Mathematics.

A Curriculum for Excellence

During the year, we made a strong contribution as a full partner in the development of 'A Curriculum for Excellence'. Our Chief Executive serves on the overarching programme board, and a number of senior officers are on key management and working groups.

2.2 Provide analysis of trends and issues to inform developments

Each month in 2005–06, SQA's Research and Information Services produced a digest of news and developments in education and lifelong learning to keep colleagues informed of trends that could affect the services our customers require. We also produced quarterly and annual analyses of trends to ensure that SQA staff and committees were aware of potential issues and opportunities. These reports aimed to stimulate debate, and share knowledge around the organisation.

During 2005–06, we also prepared ad hoc briefings in response to external developments.

Area	Briefing Topics
Scottish Education	• The merger of the Scottish Further and Higher Education Funding Councils • SFEU's *Significant Contributing Factors to the Success of National Qualifications Students from Scotland's Colleges* HMIE's *Missing Out: a report on children at risk of missing out on educational opportunities* • Scottish Further Education Funding Council's *Student and Staff Performance Indicators for FE in Scotland 2003-04* • The implications for SQA of the Culture Commission's report
Demographics	• Demographics in Scotland 2004-2031, in response to the Registrar General's population projections
UK Education	• The government White Papers: *Skills: Getting on in Business, Getting on in Work* and *Further Education: Raising Skills, Improving Life Chances*

	• Adult Learning Inspectorate's annual report • The Foster review of further education • School qualifications and examination results from the rest of the UK 2005
International	• Organisation for Economic Co-operation and Development's *Education at a Glance 2005* • Eurydice's *Key Data on Education in Europe 2005* • A review of the introduction of new qualifications in New Zealand
Skills	• Futureskills Scotland's *Scottish Employers' Skills Survey 2004* • Futureskills Scotland's *International Comparisons of Labour Market and Skills Performance* • Comparison of Scottish Employers' Skills Survey with the Learning and Skills Council's *Employer Skills 2004: The view from Scotland and England* • The Leitch Review of Skills *Skills in the UK – The Long Term Challenge*
E-assessment	• Exam on Demand's *The Development of E-Assessment 2004-2014*

We introduced some improvements to the ways we share information within the organisation. In 2005–06, we began making our regular briefings available as audio files ('podcasts'). This meant that colleagues will in future be able to keep up-to-date with education trends and developments in a more flexible way.

2.3 Provide information and advice to the Scottish Executive and key stakeholders

In 2005–06, SQA provided both pre- and post-appeal data on pupil attainment to the Scottish Executive in line with the certification performance measures mentioned at Objective 1.1.

We also provided data and information to a variety of stakeholders. This included regular reports and ad hoc requests. Some of these are listed in the table below.

Data	Provided to
Pupil attainment	Directors of Education
Vocational qualification awards	Department for Education and Skills – quarterly
Entries and awards for Administration qualifications	Council for Administration – quarterly
Entries and awards for Childcare qualifications	Scottish Executive – quarterly
Entries and awards for Customer Service qualifications	Institute of Customer Services – quarterly
Entries and awards for Plumbing qualifications	Scotland and Northern Ireland Plumbing Employers' Federation – monthly
Attainment of looked-after children	City of Edinburgh Council
Uptake of Skills for Work courses	Scottish Executive
HN entries and awards by gender	Association of Scottish Colleges

Comparison between S3 and S4 attainment at Standard Grade	Her Majesty's Inspectorate of Education
Entries and awards for Financial Services qualifications	Financial Services Skills Council
Science data sets	Education Data Surveys
Information on 2005 derived grades	Published on website
2005 average component marks	Published on website
2005 grade boundaries	Published on website
Using the mixed economy of qualifications: an analysis of the impact on attainment research bulletin	Published on website
Projecting the Demand for Qualifications in the Scottish Economy to 2009 research bulletin	Published on website
The Scottish Standard: a guide to pass mark meetings for National Courses	Published on website
How do centres estimate pupils' attainment? research bulletin	Published on website

2.4 Establish strategic relationships with key partners

We recognise our responsibility to engage fully in the promotion of the UK skills agenda, and in the UK-wide reform of vocational qualifications.

During 2005–06, SQA, along with the Scottish Executive, was involved in refreshing the UK VQ Reform Programme. We will be continuing our membership of the UK VQ Reform Programme Board and its sub-programme strands for qualifications and qualifications frameworks in 2006–07.

In co-operation with the Association of Scottish Colleges, an SQA/Principals' Joint Working Group has been established. This strategically-focused group allows us to engage with Scotland's Colleges on a range of policy developments and important issues for us both at a formative stage. Our aim is to develop our strategic partnership with Scotland's Colleges. We believe this will bring positive benefits to Scotland's learners and economy. The Joint Working Group reports information back to all Principals thus ensuring a consistent message across the sector.

2.5 Play a leading role in the implementation of SCQF

In 2005–06, SQA continued to play a leading role in the development of the Scottish Credit and Qualifications Framework. This was the final year of the National Implementation Plan, and the core work to establish the Framework has now been completed. Along with SCQF partners, we developed proposals for managing and developing the framework post-2006.

We also completed some key projects:

♦ We led Scottish Executive-funded programmes to level and credit-rate 20 SVQs, and one Modern Apprenticeship framework.
♦ We played a key role in building capacity in the college sector to credit rate.

Measuring SQA's performance for Objective 2

The targets for the following range of performance indicators represent the level of achievement set for the last year of SQA's Corporate Plan 2003–06. Progress towards meeting these targets is indicated by the level of achievement for the current financial year.

Indicator	Purpose	Target for 2005–06	2005–06	2004–05	2003–04	Comment
Objective 2 – Inform and support national policy development and implementation						
Achieve 80% satisfaction rating for SQA's relations with partners	To assess our performance in working with others, as captured in objective 2	**80%**	**Directors and senior officers of SQA have a programme of regular meetings with senior representatives from a wide range of stakeholder organisations including HAS, SCIS, SFC, SFEU, Scottish Enterprise and Highlands & Islands Enterprise and Scotland's Colleges.** **1n 2004–05, our Advisory Council held its first meeting outwith SQA offices. Building on the success of this approach, in 2005–06 our Board of Management held its first meeting outwith the offices, in Inverness. As a direct result of the Inverness meeting, a specific Highlands and Islands Development Strategy for SQA has been devised.**	System still under development.	18 key stakeholders surveyed. No measurement taken – new system under development for next year	See 2005-06
Develop strategic agreements with all partners	To assess our performance in working with others, as captured in objective 2		**During 2005–06, we have developed Memoranda of Understanding with City & Guilds, Opito (Oil & Gas sector Training Providers) and UCAS.**	Memorandum of Understanding agreed with Microsoft. Two Memoranda of Understanding agreed with partners in relation to our work in China.	Ongoing - see 'review of performance'	See 2005-06

Indicator	Purpose	Target for 2005–06	2005–06	2004–05	2003–04	Comment
			In addition, the DIVA Partnership has been formed and launched, linking SQA to seven of the major global players in the information technology sector. **We continue to have full and active membership of the UK-wide umbrella organisation for awarding bodies, the Joint Council for Qualifications**.	Potential for several additional partnership agreements currently being investigated.		

Objective 3: Re-design our services and processes to make them better to use and more efficient

We want to be regarded as a leading non-departmental public body offering public services. This means providing quality and best value in our qualifications and services to our customers. We need to encourage greater use of our website by making it more attractive and accessible while providing high-quality information on our qualifications and services. It is also essential that we develop more data exchange services using the web and create further e-assessment and e-learning opportunities.

3.1 Expand web-based services for the management of candidate information

In August 2005, around 60 candidates for SQA National Qualifications received their results one day early, by mobile phone text alert.

We completed preparations in 2005–06 to build on this progress with a further pilot in August 2006. As part of this 2006 initiative, candidates undertaking National Courses and Standard Grades at centres in the Western Isles, Orkney and Shetland local authority areas will be able to view their results online a day early. They will also have the option of subscribing to an additional results text alert service.

During 2005–06, we continued to promote our SQA.net data transfer service for customers. We now have over 1,000 centres using this service. More than 500 of these are schools.

We expanded the SQA.net service in 2005–06 to allow centres to submit National Course estimates electronically, and return automated processing status reports to them. We also began to take Standard Grade estimate files electronically, as part of a pilot with 4 centres. Automating these services hands control of estimate files back to centres.

3.2 Establish SQA's website as the primary source of information and support for our qualifications

In 2005–06, we responded to customer and stakeholder feedback about our website with a number of changes.

We increased the range of information available for centres and candidates:

♦ The number of Senior Moderator and Principal Assessor Reports on our website was increased.
♦ Around 400 sets of Marking Instructions were added to the website, further building on the archive we first introduced in 2003.

♦ An area of the website focusing on our work in the Oil & Gas sector was added.

♦ The Awards UK and International sections of our website were overhauled to bring them up-to-date.

We introduced new services:

♦ an upgraded Personal Timetable Builder service to allow visitors to save, print or email their personal timetable

♦ an improved system to target our centres with e-mails that are relevant to them

♦ a new monthly e-mail magazine (e-zine) designed to integrate with our existing website, that provides news about our qualifications and services for customers and stakeholders — it had attracted 1,640 subscribers by the end of March 2006

♦ a pilot service giving registered Chief Invigilators secure access to electronic files used in assessments for National Qualifications in Administration

We changed the way the website is laid out:

♦ A search engine was introduced, and the way we structure our information was changed to help visitors find what they need easily.

♦ The website's home page was re-designed to be less cluttered. We also clustered information together differently so people using our website could find similar topics more easily — for example, someone who is looking for information about our National Qualifications is now offered links to related areas.

3.3 Expand provision of e-assessment and e-learning resources

As part of the broad modernisation programme discussed as part of objective 1.3, we are working in close partnership with colleges and stakeholders to develop e-enabled support for revised Higher National Qualifications. This will ensure that up-to-date assessment and learning support is available to match the modernised qualifications. With financial support from the Scottish Funding Council and the European Social Fund, SQA has worked with partners to develop:

♦ e-enabled summative assessments for Higher National Units through the SOLAR project

♦ a range of assessment and other support materials, many of which will be e-enabled, for the Modernisation Programme

♦ information gateways (websites mapped to individual Higher National Units) and learner guides

In 2005–06, we worked with partners to complete:

♦ 240 assessment exemplars to support modernised and validated HN Units

- ♦ 246 teaching and learning packs for a selection of Units
- ♦ 400 e-assessments for selected HN Units through the SOLAR project
- ♦ (with SFEU) 157 learner guides and 1,569 websites mapped for individual HN Units to create information gateways

Additionally, to support delivery of National Qualifications, we expanded our work to pilot the use of e-assessment for units within Higher Mathematics and in Computing. We also expanded the range of subjects supported by the Understanding Standards Website. This site contains exemplification of the standards set by SQA in the external assessment of National Qualifications and provides the opportunity for teachers to compare their marking against the national standard. The website now covers 20 subjects and plans are in place to increase this number in the coming year.

3.4 Introduce new web-based marking and quality assurance processes

In 2005, SQA introduced electronic marking of candidates' objective test answer sheets in National Qualifications examinations. Electronic marking allows candidate marks to be processed more quickly, and at a reduced cost, compared to manual marking.

This was the first e-assessment development in external examinations for our National Qualifications. 53,000 candidates were involved across five subject areas: Biology, Biotechnology, Chemistry, Human Biology and Physics. In 2005, we set thirteen objective tests for these subject areas, and all of these were marked electronically. To achieve this, we issued candidates with revised format answer sheets which included their personal details. As this was the first year of operation, we carried out additional quality checks to ensure that marks were processed accurately.

We evaluated this first e-assessment development with feedback from our appointees, and we are implementing the process from 2006. We are also trialling a number of other e-assessment techniques.

3.5 Introduce an improved Scottish Qualifications Certificate

In 2006–07, the format of the Certificate sent to candidates for SQA's National Qualifications will be changing. During 2005–06, we have completed preparations for these changes. We consulted candidates to make sure that the new-style certificate is easier to use, with a clearer structure, layout and typeface. Information about the candidate's achievement in SCQF levels and points is also included. There is more information about the SCQF at Objective 2.5.

3.6 Complete a review of our policy and processes for entry charges

During 2005–06, we carried out a detailed investigation of our product range, the markets and customers to whom qualifications are delivered, costs incurred and the prices we charge. The appraisal included a survey of views from all customer segments. The key findings were:

♦ SQA offers a diverse range of products and services

♦ customers' expectations are evolving

♦ disparate pricing and invoicing mechanisms have built up over time

♦ revenue is based on entry volume while costs are largely fixed

We have developed a range of proposals for pricing qualifications to address these findings, and will be carrying out further work to evaluate this range of options during 2006–07.

3.7 Implement an integrated Human Resources and Financial system

We carried out a review of business processes and systems in 2004. This review demonstrated that limitations of SQA's existing HR/ Payroll and Finance software were constraining our ability to address key operational issues. In April 2005, the Scottish Executive approved a funding request to replace the existing software. This replacement will offer a number of benefits:

♦ implementation of a scalable system that meets management needs for the next 3–5 years

♦ streamlining of business processes

♦ accurate and timely invoicing

♦ improved customer service

♦ enhanced auditability and control

During 2005–06, we have completed the formal procurement of the new software in line with SQA procurement best practice. We have also defined the requirements of the system and software configuration has started. The first phase of the system for HR, Payroll and Finance processes will be introduced in 2006–07, with launch of e-procurement scheduled for implementation in 2007–08.

3.8 Comply with the principles of Best Value

As with all Scottish public sector bodies, SQA has a duty to make sure that we carry out our activities in a way that secures 'Best Value' for public funds. 'Best Value' has been defined as a combination of all the processes and procedures within an organisation which ensure that:

♦ funding is spent efficiently and effectively

♦ the organisation regularly considers how it carries out its activities, and whether it would be better for these activities to be:

— completed in a different way

— completed by an external party

— not completed at all

♦ performance is monitored regularly and action taken to improve performance

♦ the organisation undertakes its business in a way which embraces equal opportunities regulations

♦ the organisation considers the social, economic and environmental impact on the wider community of any decisions it makes

In 2005–06, we carried out a self-assessment of the extent to which we demonstrate our commitment to Best Value principles, and our internal auditors PricewaterhouseCoopers completed a further review. Their review noted a number of examples of good practice including:

♦ a detailed corporate planning cycle, with objectives translated into an annual business plan and departmental operational plans

♦ adoption of a quality management framework based on the Business Excellence model from the European Foundation for Quality Management

♦ reporting of performance against objectives, monthly, in a clear format

♦ consideration of feedback from staff, customers and stakeholders on our operations and ideas for improvement

♦ business case framework for approval of new projects and development funding

♦ comprehensive policies and procedures for equality and diversity

The review also suggested a number of areas for further work, although none of these were classified as high priority. The recommendations include:

♦ publishing committee meeting minutes

♦ continuation with planned improvements to measuring and reporting our performance

♦ further improvements to our development funding and procurement frameworks

♦ formalising our consultation activity

♦ continuing to explore all possible opportunities for joint working

♦ consideration of our priorities with regard to sustainable development

We will be taking these recommendations for improvement forward in 2006–07 and beyond.

Measuring SQA's performance for Objective 3

The targets for the following range of performance indicators represent the level of achievement set for the last year of SQA's Corporate Plan 2003–06. Progress towards meeting these targets is indicated by the level of achievement for the current financial year.

Indicator	Purpose	Target for 2005–06	2005–06	2004–05	2003–04	Comment
Objective 3 – Re-design our services and processes to make them better to use and more efficient						
Ensure that staff and other non-appointee costs remain constant in absolute terms for the period 2003–2005	In keeping with the spirit of the Scottish Executive's Efficient Government programme, we are committed to making efficient use of our resources.		**A revised plan has been agreed with the Scottish Executive.**	Revised plan has been agreed with Scottish Executive	Will be monitored during course of year	In the current model for funding, the revenue from qualifications covers the core cost of qualifications provision, including delivery of the August Diet of Certification. A future model of funding needs to be explored with the Scottish Executive based on current projections of a widening gap between income and expenditure.
Reduce the area of office space by 10%	In keeping with the spirit of the Scottish Executive's Efficient Government programme, we are committed to making efficient use of our resources.	**Reduce by 10%**	**The Glasgow Accommodation Review recommended an increase of 285 sq m to provide an appropriate working environment for staff and enhanced meeting facilities. Following the move to The Optima Building the use of external meeting venues will decrease due to the additional in-house accommodation available.**	Accommodation Reviews undergone during year.	3%	The Dalkeith Accommodation project is ongoing. Efficient use of office space will always be a priority, but fitness for purpose will be the primary concern.
Achieve an 85% customer satisfaction rating for SQA's operational efficiency	To assess our performance in redesigning our services and processes to make them better to use and more efficient	**85%**	**80.0%**	79.8%	79.4%	Results show an improving trend over time but target not achieved.
Achieve an 80% satisfaction rating for SQA's website	To assess our performance in redesigning our services and processes to make them	**80%**	**77%**	75%	75%	Results show an improving trend over time but target not achieved.

Indicator	Purpose	Target for 2005–06	2005–06	2004–05	2003–04	Comment
	better to use and more efficient					
Achieve an 80% customer satisfaction rating for the delivery of SQA's products and services	To assess our performance in redesigning our services and processes to make them better to use and more efficient	**80%**	**79%**	79%	79%	Results show a consistent performance over time but target not achieved.
Achieve more than 95% of data transfer through electronic means	To assess our performance in redesigning our services and processes to make them better to use and more efficient	**More than 95%**	**97%**	97%	96% for registrations and entries	Results show improved performance over time.

Objective 4: Develop a highly-skilled, motivated and effective workforce

As well as having the necessary financial resources, we need to ensure that our workforce — staff and appointees — has the skills, knowledge and motivation to provide qualifications and services.

4.1 Implement a workforce development plan

Each year we carry out a survey of employee satisfaction which allows us to monitor trends in overall satisfaction, and also to identify issues where we should be taking action to improve employee motivation.

Our employee satisfaction survey for 2004–05 identified a number of issues, and we made progress in addressing these issues during 2005–06 as below:

Issue	Action taken
Induction	A new Business Awareness Programme has been introduced. Each team has developed tailored induction plans for new members joining the team from other departments or through external recruitment.
Communication between teams	We carried out a review of our internal communications processes and will be taking forward a number of recommendations in 2006–07.
Visibility of our Executive Team	Our Chief Executive carries out quarterly All Staff Briefings, supported by Directors. Our Executive Team attends the regular management briefings to ensure that line managers cascade updates on key issues throughout the organisation. Chief Executive and HR Director held informal open-invitation breakfast meetings.
Staff Development	See below for more detail

Staff completed our 2005–06 survey in March 2006, and we have included some of the key results in this Report. We will be considering any additional areas for improvement identified through this survey as part of our wider strategic planning programme for 2006.

Strategic focus for Organisational Development

In April 2005, we began to strengthen the link between the development opportunities we offered our employees, and the organisation's strategic objectives. During 2005–06, we revised our Performance Management and Review process to ensure that each employee's performance objectives and development priorities are closely related to SQA's Corporate and Business Plan

objectives. Training workshops were offered to support staff and line managers through these changes.

We continued to offer our calendar of development opportunities for staff. In the final quarter of 2005–06, 289 SQA employees participated in formal learning events. Each training opportunity contributed to one of three aims:

♦ support an employee's ability to carry out the technical parts of their job that demand a particular set of skills or specific knowledge
♦ support an employee's ability to understand and effectively operate SQA business processes such as Performance Management, Project Management and Financial Management
♦ ensure that we are building future leadership capability and are taking account of individual aspirations where possible by supporting people through the achievement of SVQs and formal qualifications

We defined competence frameworks for our employees and management team during 2005–06. These set out the skills needed to perform each role in our organisation well. In 2006–07, we will review our existing calendar of training opportunities to ensure that these skill needs are fully addressed, and develop additional programmes as necessary.

SQA could not deliver its commitments without the help and support of the thousands of professionals who enrol as Appointees every year. Without the Markers, Setters, Vetters, Verifiers, Examiners, Principal Assessors and many others who give up their time, our work would be impossible.

Demographic changes — an ageing population — mean that we are anticipating shortages in our pool of Appointees, so we have been taking steps to address this. These steps include:

♦ In-depth surveys of appointees and potential appointees were carried out and evaluated as a benchmark of the starting point of the project.
♦ In parallel, the current selection criteria for the appointee roles were also agreed and formalised as a benchmark for future changes.
♦ A small but successful pilot was conducted with student teachers in the interest of widening access to SQA and our procedures for younger professionals.
♦ We held discussions with the General Teaching Council for Scotland to explore the guidelines for their Framework for Professional Recognition, looking at ways acting as an Appointee could contribute to Continuing Professional Development.

4.2 Strengthen SQA's partnership working with trade unions

Building on the negotiation of a three-year pay agreement in 2004, interaction between SQA management and our three recognised Trade Unions (Amicus,

ACTS and Unison) has been moving away from traditional employee relations models in recent years.

Strong working relations with the trade unions representing SQA's employees are helpful in creating a shared understanding of the organisation's objectives, and the issues we face. The SQA Partnership Group, which meets each month, was formed in April 2005. Another milestone in promotion of Partnership Working was achieved with the completion of a formal Partnership Agreement in September 2005.

The Agreement was developed through consultation between SQA's Executive Team and full-time officials and local representatives for each of the unions. It formalises the principles for Partnership Working which had already been accepted and applied by SQA's Partnership Group. These are defined in Trades Union Congress guidance as follows:

♦ commitment to the success of the enterprise
♦ recognising legitimate interests
♦ commitment to employment security
♦ focus on the quality of working life
♦ transparency
♦ win-win

Our Agreement defines a number of structures and behaviours for joint working, including communications between unions and the management team, and communication with employees. Staff support for the Agreement was secured through information sessions held by the three unions. The Agreement was approved by SQA's Board of Management in September 2005 and the principles captured in the Agreement continue to be applied through SQA's Partnership Group.

4.3 Implement an estates and facilities management programme

In Spring 2006, all of SQA's Glasgow-based staff moved into a single open-plan office at the Optima Building. The move brought together all of SQA's Glasgow-based staff in a single office, for the first time. This is supporting improved communication within and between teams, and streamlining of business processes. The new office also provides an enhanced working environment for our staff and visitors.

In preparing for this move during 2005–06, we worked in close liaison with our co-location partners Learning and Teaching Scotland. This ensured that maximum efficiencies were achieved throughout the fit-out of the building, through joint procurement exercises, sharing facilities within the Optima Building and sharing contracts and maintenance arrangements. We will continue to work with Learning and Teaching Scotland to maximise on-going benefits from our co-location.

Measuring SQA's performance for Objective 4

The targets for the following range of performance indicators represent the level of achievement set for the last year of SQA's Corporate Plan 2003–06. Progress towards meeting these targets is indicated by the level of achievement for the current financial year.

Indicator	Purpose	Target for 2005–06	2005–06	2004–05	2003–04	Comment
Objective 4 – Develop a highly skilled, motivated and effective workforce						
Achieve 75% staff satisfaction with SQA as an employer	To assess our ability to motivate and retain our workforce to ensure that we continue to have access to the expertise we need to develop and maintain our portfolio of qualifications	**75%**	**73%**	80%	82%	Response rate to our staff survey was 80% in 2005/06, compared to 52% in 2004/05. Of the 29 questions where results were benchmarked with other relevant public and private organisations, SQA's performance in 21 was equal to or better than these organisations. While the 2005/06 survey shows a decrease in the level of satisfaction, it compares to 61% in local government and 57% in central government.
Maintain staff turnover between 10 – 15%	To assess our ability to motivate and retain our workforce to ensure that we continue to have access to the expertise we need to develop and maintain our portfolio of qualifications	**10 – 15%**	**8.8%** **Staff turnover is measured as the total number of leavers in the year divided by the average number of staff employed in the year.** **The basis of reporting for 2005/6 has been to state all figures as Full Time Equivalents to provide greater consistency.**	10.2%	10.2%	Turnover is now measured according to CIPD practice, whereas previously other measures were employed. The 2005-06 figure reflects this new format. Using the CIPD standard measure, SQA's turnover rate compares to an average of 11.5% in the public sector as at August 2005.
Achieve 40% staff satisfaction with SQA's staff performance management system	To assess how effectively we manage our people to achieve business objectives	**40%**	**80%**	Not measured in Staff Opinion Survey for 2004 – questionnaire revised to reflect more recent	38%	Questions in the staff survey around our performance management system were revised for the 2004-05 survey. We achieved 80% in the 2005-06 survey for a revised measurement,

Indicator	Purpose	Target for 2005–06	2005–06	2004–05	2003–04	Comment
				organisational developments as part of improved performance measurement framework. 2004 Survey : 88% of staff have a clear understanding of their personal objectives and what is expected of them (89% in 2003)		but the target was not reviewed when the measures were revised.
Achieve 65% staff satisfaction with internal communication	To assess how effectively we manage our people to achieve business objectives	**65%**	**56%**	Not measured in Staff Opinion Survey for 2004 – questionnaire revised as part of improved performance measurement framework. 2004 survey: 74% of staff feel sufficiently informed about what is going on at SQA (73% in 2003)	80%	Questions in the staff survey around internal communication were revised for the 2004-05 survey. We achieved 56% in the 2005-06 survey for a revised measurement, but the target was not reviewed when the measures were revised.
Reduce the average staff absence rate to below 8.5 days per annum	To assess how effectively we manage our people to achieve business objectives	**Less than 8.5 days**	**11.1 days** **Staff absence is measured as the total number of days recorded as absent in the year divided by the average number of staff employed in the year.** **The basis of reporting for 2005/6 has been to state all figures as Full Time Equivalents to provide greater consistency.**	10.4 working days	10.0 working days	Absence is now measured according to CIPD practice, whereas previously other measures were employed. The 2005-06 figure reflects this new format. Using the CIPD standard measure, SQA's absence rate compares to an average of 10.3 days or 4.5% in the public sector as at July 2005.

Objective 5: Raise the profile of Scottish education and training internationally to benefit the Scottish economy and users of Scottish qualifications

5.1 Seek alliances of Scottish, UK and international organisations to promote Scottish education and training overseas

SQA's involvement in international activity has three main aims, as set out in our International Strategy:

♦ Learn from and contribute to best practice in education and training.
♦ Promote Scottish education and training worldwide.
♦ Support education and training worldwide.

Learn from and contribute to best practice in education and training

Measuring ourselves against the best, keeping abreast of new policies and practices, and making a contribution to European and global developments will help to ensure Scottish qualifications are relevant and respected, and that they continue to be seen as leading-edge and innovative.

SQA has co-ordinated many inward study tours exemplifying Scottish education. In 2005–06, we hosted inward study tours from the following organisations:

Organisation	Date
Ministry of Education, Hungary	April 2005
Austin Community College, Texas	May 2005
Hong Kong Council for Academic Accreditation	May 2005
National Accreditation Council of Malaysia	June 2005
Casablanca Chamber of Commerce, and director of Institut Morocain de Management, Morocco	June 2005
European Training Foundation, Montenegro	June 2005
Ekurhuleni East College, Springs, South Africa	July 2005
Hamburg Chamber of Commerce, Germany	July 2005
Delegation of Head Teachers, Denmark	September 2005
Ministry of Education, Greece	October 2005
European Centre for the Development of Vocational Training (CEDEFOP)	October 2005
Samara Education Development Foundation Study Tour	October 2005
VET Armenia Project	November 2005 and February 2006
Matriculation Division, Ministry of Education, Malaysia	November 2005
Ministry of Education and Labour Market Training Authority, Lithuania	November 2005 and January 2006
North Caucuses Study Visit	March 2006

Promote Scottish education and training worldwide

Our aim is to ensure that the Scottish system is visibly represented and that our qualifications are recognised and respected internationally. We also support the work of our partners and centres in Scotland in their efforts to promote the system and its qualifications.

A European Qualifications Framework is being developed to promote transparency and portability of qualifications across Europe. SQA is involved in the development of this Framework to ensure that holders of Scottish qualifications are able to benefit from the opportunities it will bring.

During 2005–06, we part-sponsored a major conference held in Glasgow as part of the consultation on the proposed European Qualifications Framework. The conference was part of the programme of events which marked the UK's presidency of the EU. It provided an opportunity to showcase the Scottish Credit and Qualifications Framework, as well as framework developments in England and Wales. Following on from our contribution to this event, we were asked to join the UK delegation to the consultation dissemination event in Hungary in February 2006.

Support education and training worldwide

SQA is committed to playing its part in contributing to the development of education internationally through the sharing of expertise and products. We provide international clients with a comprehensive range of academic and vocational qualifications, and we work with Scottish and international partners in managing international consultancy projects to support national reform programmes in developing and transition countries. These are funded from a variety of sources including donor agencies.

Our work in Romania has involved developing support materials and teacher training for enhancements to the national curriculums. In Antigua and Barbuda we have been providing assistance with setting up a National Training Agency and vocational education curriculum.

In partnership with the Chinese Service Centre for Scholarly Exchange (CSCSE), an agency of the Ministry of Education in China, we offer a programme of 20 HND courses designed as a stepping stone to entry for candidates in China to UK universities.

For academic year 2005–06, 5,000 students in the People's Republic of China were enrolled in either Foundation, HND Year One or HND Year Two of this programme. Delivery of this HND programme is supported by Scotland's Colleges. Colleges have released teams of visiting moderators and subject specialists to support SQA to deliver quality assurance and specialist training, and they also produced support materials for Chinese lecturers and students, working in partnership through the Scottish Colleges Open Learning Exchange Group (SCOLEG). The first cohort of Chinese students will come to the UK in the autumn of 2006. Twenty-eight UK university partners have offered conditional places on undergraduate degrees leading to master programmes.

During 2005–06, SQA also worked with the Foundation College China Scholarship Council (FCCSC), an agency of the Ministry of Education in China, to develop an International Bi-lingual Teaching Qualification (IBTQ). It is planned that this qualification will underpin the quality of learning and teaching in Chinese universities, including the delivery of the SQA HND programme.

Measuring SQA's performance for Objective 5

SQA's Corporate Plan 2003–06 did not include any indicators of performance for international activity. More detail of our work to develop our performance management framework is given in the Statement on Internal Control.

Objective 6: Develop new markets and income streams

6.1 Implement the commercial strategy

To identify alternative sources of funding and reduce our reliance on public funds, we developed a proposal during 2005–06 to create a separate trading entity. This would manage and operate activities of a commercial nature, and would affect the following SQA services:

♦ Testing Services
♦ Street works register
♦ Customised Awards
♦ PC Passport
♦ Licensing support services, including the issue of licences to practice

Our Board of Management approved this proposal in December 2005, ahead of submission to our Sponsor Department.

Our Testing Services team provides commercially-contracted examination and licensing services. In August 2005 we were awarded the contract for the Scottish Police Promotion examinations for another three years. In January 2006 we were also awarded the contract for the Dangerous Goods Driver Training examinations by the Department for Transport, starting from October 2006 for a period of three years.

Customised awards are competence-based vocational qualifications specifically developed to meet the requirements of an individual organisation where there is no appropriate mainstream provision. The cost of award development, certification and quality assurance is fully covered by the customer and generates income for SQA. In 2005–06, we secured 8 new customers for whom we developed 15 new awards, and we developed 18 new awards for existing customers. Customers ranged from multinational oil and gas service companies, like Halliburton, to small employers and charitable organisations such as the Prince's Trust.

6.2 Establish partnerships with organisations with a track record in education and training

SQA works with a number of partners to develop new markets and income streams.

In October 2005, we announced our Digital media and ICT Vendor Alliance (DIVA) Project. This is an initiative by SQA to update and expand its range of Information and Communication Technology (ICT) and digital media qualifications, working with industry partners.

The objectives of the project are to source and incorporate high quality support materials from industry into SQA's qualifications, and to link those qualifications effectively to the world of work. The project will also create new professional development opportunities for teachers and lecturers.

Six global vendors, Apple, Avid, Cisco, Macromedia, Microsoft and Oracle, together with the computing industry trade association CompTIA, will work with SQA and education partners over the next three years to introduce further industry-recognised options into SQA's ICT and digital media qualifications.

Collaboration plans include:

♦ development of new awards in ICT and digital media, and expansion of existing awards
♦ inclusion of new learner support materials from industry into all levels of ICT and digital media education
♦ professional development opportunities for Scottish teachers and lecturers to train in the latest technologies and courses
♦ development of learning pathways for new career opportunities in ICT and digital media industries, in line with the Scottish Credit and Qualification Framework (SCQF)

A number of education champions for the programme were also appointed to provide a focal point for information, advice and training to enable new curriculums and awards to be developed, piloted and rolled out effectively. The lead centres are:

♦ Adam Smith College will be a Lead Centre for Avid work.
♦ Cardonald College and Scotsys are already Lead Centres for Microsoft related activities. Our partnership with Microsoft has been in place since October 2004.
♦ James Watt and Stevenson College will collaborate on a Development Centre for the Cisco network.
♦ Scotsys will act as a Lead Centre for Apple related activities.
♦ Stow College will be the Lead Centre for CompTIA work.

For each partnership, some early stage work has been completed to establish key areas of focus for coming months.

6.3 Extend the range of funding sources

During 2005–06 we have continued to seek out further opportunities for acquiring additional funding for projects. In addition to a number of business cases being funded by our Sponsor Department, we have been successful in obtaining funding from the European Social Fund and also from the Scottish Funding Council for modernising Higher National Qualifications as discussed under objective 1.3. The development of National Courses in English for Speakers of Other Languages

(ESOL) at Intermediate 2 and Higher levels was part-funded from European Social Funds. We will continue to monitor the position for further funding opportunities on an on-going basis.

6.4 Develop e-commerce capability

During 2005–06, we have been carrying out preparatory work that will allow us to expand the range of services we offer to centres and candidates through our website. We have completed an agreement with Worldpay to provide the financial software platform to support our e-commerce capability. We have also completed development work for launch of our first two e-commerce services – replacement certificates and past papers online – in 2006–07.

Measuring SQA's performance for Objective 6

SQA's Corporate Plan 2003–06 did not include any indicators of performance for commercial activity. More detail of our work to develop our performance management framework is given in the Statement on Internal Control.

Section 3: SQA's status and structure

The Scottish Qualifications Authority is a Non-Departmental Public Body, a not-for-profit organisation and is recognised as a Scottish charity, registration number SCO26097, with our registered office at:

The Optima Building
58 Robertson Street
Glasgow G2 8DQ

The functions, powers and duties of SQA are detailed in the Education (Scotland) Act 1996 and the SQA Act 2002.

A Management Statement and Financial Memorandum, drawn up by the Scottish Executive Education Department, SQA's sponsoring department, sets out the broad framework within which SQA operates, in particular:

♦ The rules and guidelines relevant to the exercise of SQA's functions, duties and powers.
♦ The role of the SQA Board of Management and Committees in governance of the organisation.
♦ The conditions under which any public funds are paid to SQA.
♦ How SQA is to be held to account for its performance.

This Memorandum is available on our website www.sqa.org.uk. The website also has information about our organisational structure.

Members of the SQA Board of Management are appointed by Scottish Ministers. The Board of Management performs the role of a charity Board of Trustees. New members are taken through an induction with a handbook covering the roles of the Board and its Committees, and meetings with SQA's Chairman and Chief Executive. They are also offered training endorsed by the Scottish Executive.

♦ Chairman: John McCormick MA MEd
♦ Chief Executive: Anton Colella BA (Hons), Dip Ed

3.1 The way we manage the organisation

We have reported at Objective 3.8 that we have adopted practices to ensure that we live up to our obligations as a Scottish public sector body to run the organisation in a way which achieves 'Best Value'. The principles of Best Value set out best practice guidelines that affect how we plan our activities, and how we then check that we are on course to achieve our objectives.

Section 2 reports in some detail on our progress towards the key objectives of our Business Plan for 2005–06. However, as we are ever conscious that we are privileged to be providing a service with public funds, there are two additional measures that we have been tracking to

ensure that we continue to provide an efficient, effective service which offers value for public money. These are set out in the table below.

In 2005-06, we exceeded the £300,000 target for efficiency savings agreed with our Sponsor Department, generating £500,000 of efficiency savings. In addition, we continued to hold our operating costs at 2004-05 levels. We have also submitted a number of Business Cases requesting investment to our Sponsor Department. These Business Cases include projected cost savings.

3.2 Key targets

The targets for the following range of performance indicators represent the level of achievement set for the final year of SQA's Corporate Plan 2003–06. Progress towards meeting these targets is indicated by the level of achievement for the current financial year.

Indicator	Purpose	Target for 2005–06	2005–06	2004–05	2003–04	Comments
Become self-financing	In keeping with the spirit of the Scottish Executive's Efficient Government programme, we are committed to making efficient use of our resources.	By 2006	**In the 2005/06 model for funding, the revenue from qualifications covers the core cost of qualifications provision and the Scottish Executive provides funding for development costs.**	A mechanism has been agreed with the Scottish Executive for 2005-06 onwards.	Target under discussion with Scottish Executive	A future model for funding needs to be agreed with the Scottish Executive based on current projections of a widening gap between income and expenditure.
Achieve a 75% credibility rating	To assess potential candidate, customer, employer and stakeholder perception of the SQA corporate brand.	**75%**	**77%**	75%	70%	A trend for increasing performance over time.

3.3 Our future plans

Each year, we review and update SQA's high-level objectives based on our progress in the last financial year, and an analysis of changes in the education and training sector. For financial year 2006–07, our Corporate & Business Plan is available on our website at

www.sqa.org.uk. It includes details of our plans to take forward five high-level Corporate Objectives in 2006–09:

Objective 1: Provide qualifications and support to match the needs of individuals, society and the economy of Scotland

SQA is committed to providing qualifications and support which continue to meet changing stakeholder needs.

This objective consolidates our commitment to the reviews of our National and Higher National Qualifications, and additionally to the outcomes of our recent Portfolio Review, particularly the introduction of new National Certificates. We recognise the importance of working with others in education and training to support development of core and transferable skills to underpin Scotland's economic growth. A growing recognition of the need for vocational qualifications at all levels has prompted the development of Skills for Work qualifications, with plans over the coming year to expand the number of courses available.

Improved support for centres through our Understanding Standards programme has been welcomed widely by stakeholders. We are keen to increase further our understanding of stakeholder and customer needs and priorities, widening our focus to include candidates and employers.

The currency and credibility of our qualifications depends on SQA setting and maintaining standards. This plan includes a number of objectives (see also objective 3) to enhance further quality assurance and standards-setting activities to ensure that all stakeholders have confidence in what it means to achieve an SQA qualification.

Objective 2: Inform and support national policy development and implementation

We rely on a number of key partnerships with organisations in Scotland's education and training sector. We will continue our commitment to these, as well as pursuing international partnerships to benefit Scottish learners.

We will continue to provide expert advice to Ministers and the Scottish Executive centred on qualifications and assessment in Scotland. Using our skills and expertise in analysing trends and issues, we will seek to ensure that others can place a growing reliance on our advice in these matters.

The Scottish Executive's vision of 'Ambitious, Excellent Schools' will redefine the shape of the curriculum and assessment in Scottish schools for years to come. Along with other stakeholders, we are committed to implementing the outcomes of the 'A Curriculum for Excellence' Review.

Our commitment to implementing the Lifelong Learning Strategy, in conjunction with stakeholders, continues.

In line with Scottish Executive priorities, we will contribute to policy development and implementation around qualifications and assessment in UK, European and international contexts, as well as promoting the recognition of SQA qualifications internationally.

Objective 3: Re-design our services and processes to make them better to use and more efficient

Our services will be subject to continuous review. We will work to improve their quality and speed of response. We will also increase the degree of flexibility offered to those who use them. We will ensure that our business processes are cost-effective.

Where appropriate, we will learn from experiences of other awarding bodies and organisations who have achieved excellence in particular processes. This will ensure that, as Scotland's national awarding body, we are in step with leading edge developments around the world.

Objective 4: Develop a highly-skilled, motivated and effective workforce

All our objectives are dependent on our people and our commitment to ensuring that our workforce — staff and appointees — has the skills, knowledge and motivation to provide qualifications and services needed by learners for a successful Scotland. To meet the current and future needs of our staff and appointees in setting and maintaining standards, we are strengthening workforce development programmes linked to personal/business objectives.

Deploying our workforce efficiently through effective management and the adoption of the 'Best Value' approach will support our aim to become a successful Non-Departmental Public Body (NDPB) and employer of choice within the public sector.

Following a re-location in Glasgow, plans are already in motion to relocate SQA to new premises in Dalkeith with modern facilities to support our improvements to processes.

We will continue to recognise the important contribution of our trade unions, through our Partnership Group, in representing staff opinion and interests. We will strengthen further our working relationship with them.

Objective 5: Increase the use of SQA qualifications and services nationally and internationally

We will continue to build capacity, including a robust governance model, to develop opportunities, including international markets, in a sustainable way.

We will build on, and offer, a range of consultancy services, assessment and quality assurance activities, making the most of our ability to provide a range of expert services.

The delivery of SQA qualifications internationally enhances their reputation worldwide. We will take advantage of new opportunities to deliver our qualifications and services at home and internationally.

3.4 Factors influencing our progress

Much of our activity relates to policy development being taken forward by the Departments of Education and Enterprise, Transport and Lifelong Learning at the Scottish Executive. We work closely with Executive colleagues to both inform and implement policy. For many of these developments, we also work in close partnership with our centres, and stakeholder organisations. In Section 2, we have reported our recent progress in developing strong relationships to inform and implement policy in the Scottish, UK and international contexts. Objective 2 of our Corporate & Business Plan 2006–09 sets out our continued commitment to strengthening these relationships.

We employ 562 full-time equivalent employees, and a further 43 fixed-term and seconded staff. We also rely on the support of 14,852 appointees to ensure our continued ability to develop and deliver our qualifications. Staff, appointees and candidates will all be affected by demographic movement to an older population overall, and we have set out some of our progress in addressing these changes in Section 2 of this report. We will continue to take this work forward through Objective 4 of our Corporate & Business Plan 2006–09.

Statement on Internal Control from SQA's Chief Executive

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 2006 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.

♦ As part of the internal audit activity for 2005–06, the Audit Committee commissioned an independent evaluation of SQA's compliance with Best Value principles. The findings were presented to the Committee and highlighted the commitment SQA has to embedding best value principles within our corporate and operational activities. The management action plan which was included with the report will be used to further develop our arrangements for securing best value.

Risk and Control Framework

♦ SQA's Executive and Business Management Teams review progress of the organisation using a monthly management review process which reports the progress of each Directorate against their corporate/business objectives. The review includes reports on the preparation and monitoring of business cases seeking external funding, and the status of management action taken to address recommendations arising from internal and external audits. The corporate planning and reporting processes required to support this

performance management framework are provided by the Corporate Strategy and Performance Team.

♦ Implementation of a risk management strategy and framework, linking 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 was extended according to provision for a further year to 31 March 2007. 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 2006/7 was agreed by 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 Team, with this team responsible for tracking progress in addressing internal and external audit recommendations.

♦ 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 for Corporate Strategy and Performance. Status reports continue to be 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.

♦ SQA's Executive Team has continued with its programme of change and improvement to strengthen the internal control environment. Improvements introduced during 2005–06 include:

— The implementation of a comprehensive training programme to ensure the organisation has appropriately trained staff to deliver the devolved structure of procurement. The Probity Director (Director of Finance and Corporate Performance) continues to chair a team of Probity Advisers who ensure the organisation's compliance with relevant procurement legislation. Detailed spend analysis information is now being issued monthly to all business managers to assist in monitoring compliance.

— The alignment of corporate/business planning processes with workforce planning, budget setting, and the development of business cases seeking external funding. An evaluation of the annual planning processes has confirmed adoption of the approach for 2006–07. A revised format for the quarterly reports on progress with the Corporate/Business Plan was also introduced following its approval by the Board.

— The on-going updating and testing of business continuity plans covering all business areas. Scenario planning has been extended to consider possible action to be taken in the event of a flu pandemic. The organisation's Information Security Management System remains compliant with BS7799 standards (now BS ISO27001:2005) in relation to the Streetworks Qualifications Register and question papers.

— The introduction of a rolling programme of Business Area Performance Reviews, chaired by myself, as part of the performance management arrangements. The Reviews enable Business Managers to profile the performance of their teams, and to discuss and agree ideas for future improvement. The reviews have been identified as an area of best practice in the Best Value Review conducted during 2005–06.

♦ On-going improvements to the financial control environment have resulted in further reduction in aged debt, and increasing compliance with targets set for invoices paid to terms.

♦ In recognition of the increasing importance of our international and commercial business, the Board have established a separate committee of governance to oversee the development of these activities.

The Board and Executive Team are committed to further developments to the internal control environment for 2006–07 and these include:

♦ The implementation of the outcomes of the evaluation of the annual planning processes, including the introduction of a balanced scorecard of performance measurements with revised key performance indicators. At an operational level, the balanced scorecard approach will be extended to Business Area Performance Reviews as part of the proposed revisions to the format of these reviews for 2006–07, including the introduction of thematic reviews across teams and projects.

♦ Where feasible, the introduction of framework agreements to support SQA's procurement processes. In addition, the recommendations for changes to procedures for the use of external consultants, following a review conducted during 2005–06, are being launched in June 2006.

♦ Following approval of funding from the Scottish Executive in April 2005 for an integrated Human Resources and Financial software system, SQA has completed the formal procurement of the new software in line with best practice. The requirements of the system have also been defined and software configuration has started. The first phase for HR, Payroll and Finance processes will be introduced in 2006–07, with the launch of e-procurement scheduled for implementation in 2007–08. The expected benefits of the new software include: implementation of a system that will meet management needs for the next 3 – 5 years; streamlining of business processes; accurate and timely invoicing; improved customer service, and enhanced financial control environment.

♦ Further embedding of the risk management framework introduced last year with procedures to escalate and report risks in line with reports on progress with Corporate/Business Plans. The risk framework manages risks from strategic to operational levels and has been adapted for use by SQA's commercial trading subsidiary.

♦ Improvements to consultation with staff with the streamlining and consolidation of staff engagement activities used to inform planning activities and monitor performance. The results of our consultations with staff, customers and stakeholders will

also be used to continue to demonstrate SQA commitment to implementing the principles and characteristics of Best Value.

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

Reference details

Bankers:

Royal Bank of Scotland
63 High Street
Dalkeith
Midlothian
EH22 1JA

Solicitors:

Burness Solicitors
242 West George Street
GLASGOW
G2 4QY

MacRoberts Solicitors
Excel House
30 Semple Street
EDINBURGH
EH3 8BL

Auditors:

Audit Scotland
110 George Street
Edinburgh
EH2 4LH

Foreword to the Annual Financial Accounts

The Board of Management has pleasure in presenting the Annual Financial Accounts for the year ended 31 March 2006. 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 2006

The deficit for the year ended 31 March 2006 is £328,000 after additional grant funding from the Scottish Executive of £10,638,000. SQA also received additional grant funding for capital projects of £4,455,000 during the year. This amount has been recognised as deferred income. The total additional grant funding for the year was £15,093,000.

During the financial year ended 31 March 2006, SQA received additional funding from the Scottish Executive to meet costs incurred in providing national qualifications and other services. A mechanism was agreed in the year ended 31 March 2005, 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 £1,000 (2005: £390,000). This balance was retained with the agreement of the Scottish Executive in order to meet ongoing commitments.

During the year SQA invested £5,423,000 in fixed assets. The majority of this amount related to fit out costs for SQA's new Glasgow office and investment in replacing the current finance and HR systems.

Post balance sheet events

On 27 April 2006 SQA signed an agreement to sell its Glasgow office, Hanover House, 24 Douglas Street, Glasgow, for consideration of £7,077,000. The carrying value of the building in the accounts as at 31 March 2006 is £3,260,525. The proceeds of the sale are to be paid on receipt by SQA to the Scottish Executive.

There are no other 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 2006 SQA paid 69% 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 2006 was £44,700 (2005: £43,150).

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
28 September 2006

Board members and observers Appendix

Board Members

Chairman
John McCormick

Vice Chairman
Iain McMillan CBE

Members

Anthony Cassidy
Anton Colella (Accountable Officer and Chief Executive)
Judith Gillespie
Neil MacGowan   *Tenure of appointment finished 31 December 2005*
Prof. Alex MacLennan
Linda McKay MBE
John Mitchell
Margaret Nicol
Gordon Rodgers   *Appointed 6 February 2006*
Prof. John Simmons

Observers
Christine Carlin

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.

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.

Composition of the Audit and Performance Committee

The Audit and Performance Committee comprised Mr Iain McMillan (Convenor until 31 May 2005), Mr Tony Cassidy (Convenor from 1 June 2005), Mrs Judith Gillespie and Mr John Mitchell, all of whom are non-Executive members of the Board.

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

Meetings

During 2005/06 the Audit and Performance Committee met on four occasions. The attendance of members of the Audit and Performance Committee during 2005/06 was:

Name	*Position*	*Appointed*[1]	*Attendance*
Mr I McMillan	Convenor / Non-Executive member		3/4
Mr A Cassidy	Convenor / Non-Executive member		4/4
Mrs J Gillespie	Non-Executive member		4/4
Mr J Mitchell	Non-Executive member	25.05.05	2/4

[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 2005/06

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.

Representatives from Audit Scotland attend the meetings of the Committee.

During 2005/06, the external audit was carried out in compliance with UK auditing standards. The Audit and Performance Committee considered the Audit Opinion from Audit Scotland at its meeting on 29 August 2005. Audit Scotland provided an unqualified audit opinion on the accounts for year ended 31 March 2005, and commented on the significant improvements achieved on last year. Encouraged by the findings, the Committee had approved the Report for submission to the Board of Management.

Mid financial year, the Corporate Strategy and Performance (CSP) team assumed responsibility for the monitoring of outstanding recommendations from Audit Scotland reports. This is now reported to the Committee on a quarterly basis.

The areas of planned audit activity for 2005/06 were noted at the meeting of 28 February 2006.

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 expires at the end of this financial year and work is underway to progress the tendering process for the provision of internal audit services from April 2007. Details of this year's fees are given in note 8 of page 76 of the Annual Accounts. Representatives from PricewaterhouseCoopers and the Business Manager for CSP attend the meetings of the Committee.

Visits programmed for the current year were discussed and approved by the Audit and Performance Committee on 31 May 2005.

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 is 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 2005/06 the following reports were undertaken by PwC and considered by the Audit and Performance Committee:

Governance and Strategy

Audit Section
China project
Best Value Review

Financial and Key Business Systems

Financial Controls self-assessment and treasury management report
External Assessment Business Case Review
Software Development Testing Report

Operational Activities

Accreditation Business Area
Health and Safety
Approvals

Independent Auditor's Report

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

I have audited the financial statements of the Scottish Qualifications Authority for the year ended 31 March 2006 under the Education (Scotland) Act 1996. These comprise the Statement of Financial Activities, Income and Expenditure Account, the Balance Sheet, the Cash Flow Statement and Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out within them.

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 for Scotland 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, Chief Executive and auditor

The Scottish Qualifications Authority and Chief Executive are responsible for preparing the Annual Report and the financial statements in accordance with the Education (Scotland) Act 1996 and directions made thereunder by the Scottish Ministers. The Chief Executive is also responsible for ensuring the regularity of expenditure and receipts. These responsibilities are set out in the Statement of Board of Management and Chief Executive's responsibilities.

My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

I report my opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Education (Scotland) Act 1996 and directions made thereunder by the Scottish Ministers. I also report 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 Annual Report is not consistent with the financial statements, if the Scottish Qualifications Authority has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Scottish Qualifications Authority's compliance with the Scottish Executive's guidance. I report if, in my opinion, it does not comply with the guidance or if it is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the body's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and receipts included in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Scottish Qualifications Authority and Chief Executive in the preparation of the financial statements, and of whether the accounting policies are appropriate to the body'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 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.

Opinion

Financial statements

In my opinion

- the financial statements give a true and fair view, in accordance with the Education (Scotland) Act 1996 and directions made thereunder by the Scottish Ministers, of the state of affairs of the body as at 31 March 2006 and of its deficit, total recognised gains and losses and cash flows for the year then ended; and

- the financial statements have been properly prepared in accordance with the Education (Scotland) Act 1996 and directions made thereunder by the Scottish Ministers.

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   Peter Tait CPFA
                                                       Assistant Director
                                                       Audit Scotland
                                                       Osbourne House
                                                       1/5 Osbourne
                                                       Terrace
Date   Edinburgh EH12
29 September 2006   5HG

Statement of Financial Activities
Year Ended 31 March 2006

	Unrestricted Funds £'000	Restricted Funds £'000	2006 £'000	2005 £'000 Restated
Incoming resources				
Donations	10,638	-	10,638	12,616
Activities for generating funds	30,682	-	30,682	26,559
Government funding	4,559	2,307	6,866	6,484
Investment income	470	-	470	228
Other incoming resources	3,089	-	3,089	3,063
Total incoming resources	49,438	2,307	51,745	48,950
Resources expended				
Costs of generating funds	40,945	-	40,945	40,394
Costs of activities in furtherance of charity's objects	-	2,307	2,307	1,862
Support costs for above	8,776	-	8,776	7,985
Resources expended on managing and administering the charity	45	-	45	43
Total resources expended	49,766	2,307	52,073	50,284
Net (outgoing) / incoming resource before transfers	(328)	-	(328)	(1,334)
Gross transfers between funds	-	-	-	-
Net movement on funds	(328)	-	(328)	(1,334)
Total funds brought forward	4,421	(51)	4,370	(4,782)
Transfer from revaluation reserve of excess depreciation	326	-	326	178
Actuarial gains	2,109	-	2,109	145
Prior year adjustment	-	-	-	10,163
Total funds carried forward	6,528	(51)	6,477	4,370

The notes on pages 67 to 90 form part of these accounts.

Income and expenditure account for the year to 31 March 2006

	Notes	2006 £'000	2005 £'000 Restated
Income			
Entry charges	3	30,682	26,559
Government funding	4(1)	6,866	6,484
Other income	5	3,089	3,063
		40,637	36,106
Expenditure			
Staff costs	6	20,523	19,292
Depreciation and other amounts written off tangible and intangible fixed assets		1,911	1,996
Other operating expenditure	7,8	29,845	28,961
		52,279	50,249
Operating (deficit) before interest		(11,642)	(14,143)
Investment income	9	470	228
Interest payable	10	(523)	(457)
Operating (deficit) after interest		(11,695)	(14,372)
Add back notional cost of capital	1(11)	729	422
Net (deficit) before additional funding		(10,966)	(13,950)
Scottish Executive additional funding	4(2)	10,638	12,616
Net (deficit)/surplus for the year		(328)	(1,334)
Revenue reserves brought forward	18	4,370	(4,782)
Transfer from revaluation reserve of excess depreciation	18	326	178
Actuarial gains	18	2,109	145
Prior year adjustment	26	-	10,163
Revenue reserves carried forward		6,477	4,370

All operations are continuing.

The notes on pages 67 to 90 form part of these accounts.

Statement of total recognised gains and losses for the year to 31 March 2006

	Note	2006 £'000	2005 £'000
Net deficit for the year		(328)	(1,334)
Unrealised surplus on revaluation of fixed assets	18	176	2,489
Unrealised loss on revaluation of fixed assets	18	-	(295)
Unrealised surplus on investments for unfunded pensions	18	11	7
Actuarial gains	18	2,109	145
Total recognised gains relating to the year		1,968	1,012
Prior year adjustment		10,163	-
Total recognised gains since last annual financial accounts		12,131	1,102

The notes on pages 67 to 90 form part of these accounts.

Balance sheet at 31 March 2006

	Notes	31 March 2006 £'000	31 March 2005 £'000 Restated
Fixed assets			
Intangible assets	11	106	124
Tangible assets	12	13,943	10,237
Investments	13	511	500
		14,560	10,861
Current assets			
Debtors	14	18,654	15,969
Cash at bank and in hand		1	390
		18,655	16,359
Creditors: amounts falling due within one year	15	(16,598)	(13,959)
Net current assets		2,057	2,400
Total assets less current liabilities		16,617	13,261
Creditors: amounts falling due after more than one year	16	(4,056)	(408)
Provisions for liabilities and charges	17	(575)	(638)
Defined benefit asset	23	3,422	1,225
Net assets		15,408	13,440
Capital and reserves			
Capital reserve	18	4,045	4,045
Revaluation reserves	18	4,886	5,025
Total capital reserves		8,931	9,070
Revenue reserve	18	3,055	3,145
Defined benefit asset reserve	18	3,422	1,225
		15,408	13,440

The Annual Financial Accounts were approved by the Board of Management on 28 September 2006 and signed on its behalf by

Anton Colella, Accountable Officer and Chief Executive
28 September 2006

Cash flow statement for the year to 31 March 2006

	Notes	2006 £'000	£'000	2005 £'000	£'000
Net cash flow from operating activities	21(1)		(5,928)		(11,965)
Returns on investments and servicing of finance					
Interest received		193		117	
Dividends received		7		7	
Gift aid received from Awards UK Limited		110		-	
Interest paid on loan from Awards UK Limited		-		(3)	
			310		121
Capital expenditure and financial investment					
Purchase of intangible fixed assets		(134)		(37)	
Purchase of tangible fixed assets		(5,289)		(480)	
Receipts from sale of tangible fixed assets		14		235	
			(5,409)		(282)
Financing					
Additional funding from the Scottish Executive		10,638		12,616	
Repayment of Awards UK Limited loan		-		(100)	
			10,638		12,516
Increase/(Decrease) in cash	21(2)		(389)		390

The notes on pages 67 to 90 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 page 91 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. It is considered that the effect of revaluing other fixed assets as at 31 March 2006 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% (2005: 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
2006				
Income	33,771	1,601	706	36,078
Expenditure	(49,972)	(1,601)	(706)	(52,279)
(Deficit)/surplus	(16,201)	-	-	(16,201)
Development funding	4,559	-	-	4,559
Operating (deficit)/surplus before interest	(11,642)	-	-	(11,642)
Net assets	15,241	83	84	15,408
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

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

	2006 £'000	2005 £'000
National qualifications:		
National Courses and units	14,345	11,679
SCE Standard Grade	9,951	8,730
Late Appeal Charges	17	6
	24,313	20,415
Higher National qualifications	3,932	4,052
Scottish Vocational qualifications	2,437	2,092
	30,682	26,559

4 Government funding

(1) Government funding

	2006 £'000	2005 £'000
Scottish Executive 5 - 14 programme	706	442
Scottish Executive accreditation	1,601	1,369
Scottish Executive development	2,268	3,233
Other government development	1,599	678
Scottish Executive deferred capital funding	692	762
	6,866	6,484

(2) Additional funding

		2006 £'000	2005 £'000
Total additional funding received		15,093	12,616
Additional funding deferred	16(1)		-
		(4,455)	
		10,638	12,616

Notes to the accounts (cont.)

5   **Other income**

	2006 **£'000**	**2005** **£'000**
Consultancy, secondments and research	471	337
Street Works Qualifications Register	407	364
Commercial testing services	740	890
Sale of publications	361	150
Royalty income	296	287
Miscellaneous income	814	1,035
	3,089	3,063

6   **Staff costs, numbers and remuneration**

   (1)   **Staff costs**

Salaries and wages	15,059	13,916
Seconded staff	786	983
Seasonal and agency staff	1,305	1,254
Social security	1,201	1,123
Superannuation	141	126
Defined benefit operating cost	1,829	1,861
Early retirement	32	(26)
Severance & compensation	170	55
	20,523	19,292

Income totalling £150,000 (2005: £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

	2006 Number	2005 Number
Annual full time equivalents:		
Awarding and related activities		
Permanent	562	552
Fixed term	28	14
Secondees	15	24
Agency	76	75
	681	665
Accreditation	22	22
5 – 14 assessment programme	7	6
	710	693

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		61	12,856	-
Vice Chairman				
Iain McMillan CBE		54	4,272	-
Chief Executive				
Anton Colella		44	110,186	2,224[1,2]
Non-Executive Board members				
Anthony Cassidy		61	4,272	-
Judith Gillespie		59	4,272	-
Neil MacGowan	Tenure of Appointment finished 31 Dec 05	49	3,195	-
Prof. Alex MacLennan		53	4,272	-
Linda McKay MBE		54	4.272	-
John Mitchell		61	4,272	-
Margaret Nicol		57	4,272	-
Gordon Rodgers	Appointed 6 Feb 06	49	359	-
Prof. John Simmons		58	4,272	-
Directors				
Maidie Cahill		49	72,192	33[1]
Tom Drake		60	73,454	6[1]
Ron Sylvester		55	83,756	29[1]
John Young		58	77,859	356[1]

Benefits in kind are: [1] taxable profit on business mileage; [2] leased car benefit.

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 55.

Notes to the accounts (cont.)

6 Staff costs, numbers and remuneration (cont.)

(3) Disclosure of remuneration (cont.)

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 2006	Cash equivalent transfer value at 31 March 2005	Cash equivalent transfer value at 31 March 2006	Real increase in cash equivalent transfer value
		£	£	£	£	£
Chief Executive						
Anton Colella	44	1,597	26,547	286,302	410,198	18,884
Directors						
Maidie Cahill	49	929	2,968	23,259	34,175	10,358
Tom Drake	60	3,769	31,923	607,280	770,331	71,599
John Young	58	1,186	29,322	556,617	698,323	24,221

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.

The cash equivalent transfer values for the year ended 31 March 2005 have been restated. This is due to the fact that there were inaccuracies in the calculation of last year's figures as provided by the Scottish Executive Teachers 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	5

Notes to the accounts (cont.)

7 Other operating expenses

		2006 £'000	2005 £'000
Staff related costs	7(1)	2,220	2,104
Board and committee expenses		22	20
Appointee release compensation		1,166	1,029
Appointee fees		10,585	10,342
Appointee expenses and related costs		1,846	2,090
Business development specialists' fees and expenses		4,142	4,477
Question paper production and printing		465	502
Assessment stationery and certificates		278	310
Property expenses		1,734	1,493
Equipment and supplies		1,296	984
IT costs		1,957	1,607
Postage and telephones		1,776	1,492
PR, marketing and publications		2,029	1,661
Miscellaneous		329	850
		29,845	28,961

(1) Staff related costs

	2006	2005
Staff travel	807	821
Staff subsistence	197	132
Catering for internal and examination procedures meetings	229	206
Staff training	323	415
Miscellaneous staff costs	664	530
	2,220	2,104

8 Income and expenditure items

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

	2006	2005
External audit fees	45	43
Internal audit fees	94	95
Bad and doubtful debts	(25)	94
Property rentals and service charges	215	298
Hire of office and computer equipment	298	467

Notes to the accounts (cont.)

9 Investment income

	2006 £'000	2005 £'000
Income from investments for unfunded pensions	7	7
Gift aid from Awards UK Limited	270	104
Other interest income	193	117
	470	228

10 Interest payable

	2006 £'000	2005 £'000
Interest payable to Awards UK Limited	-	3
Finance cost of discounted SQA unfunded pensions provision	19	20
Defined benefit finance cost	(225)	12
Notional interest on capital employed at 3.5% (2005: 3.5%)	729	422
	523	457

11 Intangible assets

	Software Licences £'000
Cost:	
At 1 April 2005	464
Additions	134
At 31 March 2006	598
Amortisation:	
At 1 April 2005	340
Charge for year	152
At 31 March 2006	492
Net book amount:	
At 31 March 2006	106
At 31 March 2005	124

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 £'000	Feuhold buildings £'000	Leasehold building improve-ments £'000	Vehicles, office and printing equipment £'000	Computer hardware £'000	Computer software £'000	Construction in progress £'000	Total £'000
Cost or valuation:								
At 1 April 2005	1,300	7,150	224	1,366	2,014	2,637	20	14,711
Revaluation adjustment	37	-	-	-	-	-	-	37
Additions	-	159	-	137	159	315	4,519	5,289
Disposals	-	-	-	(42)	(38)	-	-	(80)
At 31 March 2006	1,337	7,309	224	1,461	2,135	2,952	4,539	19,957
Accumulated depn:								
At 1 April 2005	-	-	170	830	1,450	2,024	-	4,474
Revaluation adjustment	-	(139)	-	-	-	-	-	(139)
Charge for year	-	582	18	203	532	424	-	1,759
Disposals	-	-	-	(42)	(38)	-	-	(80)
At 31 March 2006	-	443	188	991	1,944	2,448	-	6,014
Net book amount:								
At 31 March 2006	1,337	6,866	36	470	191	504	4,539	13,943
At 31 March 2005	1,300	7,150	54	536	564	613	20	10,237

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	7,174
Accumulated depreciation	-	3,657
Net book amount	250	3,517

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 2006 £'000	31 March 2005 £'000
Awards UK Limited	13(1)	200	200
Investments for unfunded pensions	13(2)	311	300
		511	500

(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 £565,903 (2005: profit of £213,000) in the year, and has aggregate capital and reserves at 31 March 2006 of £400,000 (2005: £500,000). 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 2005	296	4	300
Additions	-	7	7
Disposals	-	(7)	(7)
Revaluation	11	-	11
Market value at 31 March 2006	307	4	311

14 Debtors

	31 March 2006 £'000	31 March 2005 £'000
Trade debtors	3,012	2,322
Amounts owed by Awards UK Limited	-	37
Other debtors	123	202
Prepayments and accrued income	15,519	13,408
	18,654	15,969

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

Other central government bodies	632	844
Local authorities	71	233
NHS trusts	11	6
	714	1,083

Included in other debtors are loans to staff amounting to £67,000 (2005: £62,000). Of this, £0 is due by a director (2005: £2,000).

Notes to the accounts (cont.)

15 Creditors: amounts falling due within one year

		31 March 2006 £'000	31 March 2005 £'000
Trade creditors		1,290	493
Income tax and social security		2,699	2,630
Other creditors		281	362
Accruals		2,078	1,864
Deferred income	16(1)	10,246	8,610
Amounts owed to Awards UK		4	-
		16,598	13,959

Included within trade creditors is £70,000 (2005: £35,000) due to local authorities.

16 Creditors: amounts falling due after more than one year

		31 March 2006 £'000	31 March 2005 £'000
Deferred income	16(1)	4,056	408
		4,056	408

(1) Deferred income

	31 March 2006 £'000	31 March 2005 £'000
Opening deferred income	9,018	8,434
Additional funding deferred during year	4,455	-
Deferred additional funding released to income in year	(692)	(762)
Other deferred income movements	1,521	1,346
Closing deferred income	14,302	9,018
Deferred income falling due within one year	10,246	8,610
Deferred income falling due after more than one year	4,056	408
	14,302	9,018

Notes to the accounts (cont.)

17 Provisions

	SQA unfunded pensions £'000	Early retirements & severance £'000	VAT	Total £'000
At 1 April 2005	353	-	285	638
Provided in year	-	147	-	147
Paid during year	(13)	-	(4)	(17)
Release of provision	-	-	(211)	(211)
Finance cost of discounted provision	18	-	-	18
At 31 March 2006	358	147	70	575

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.

SQA has provided for early retirements and severance during the year amounting to £147,000.

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 was created in 2004/05 to cover the potential liability for unpaid VAT and associated penalties. During 2005/06 SQA concluded its investigations in these countries with the result that the liability was reduced to £74,000, with £4,000 having been paid in the year.

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 2005	4,045	5,010	15	5,025	3,145	(8,938)	(5,793)	3,277
Prior period adjustment	-	-	-	-	-	10,163	10,163	10,163
Restated Reserves	4,045	5,010	15	5,025	3,145	1,225	4,370	13,440
Revaluation surplus	-	176	11	187	-	-	-	187
Realised on depreciation	-	(326)	-	(326)	326	-	326	-
Movement on pension deficit	-	-	-	-	(88)	88	-	-
Actuarial gain	-	-	-	-	-	2,109	2,109	2,109
Deficit for year	-	-	-	-	(328)	-	(328)	(328)
At 31 March 2006	4,045	4,860	26	4,886	3,055	3,422	6,477	15,408

19 Commitments

Annual commitments under operating leases are as follows:

		2006 £'000	2005 £'000
Leases of office equipment expiring:			
	within 2 to 5 years	340	340
Leases of land and buildings expiring:	within 1 year	241	-
	within 2 to 5 years	20	261
	in over 5 years	1,143	-

SQA moved to a new building in Glasgow in May 2006. The annual lease commitment for this building is £1,143,000. An agreement has been entered into with the Scottish Executive whereby they will refund SQA this cost.

Notes to the accounts (cont.)

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.

During the year a writ was issued against SQA in respect of payment for alleged contractual services performed by the Pursuer. SQA is defending the litigation with the outcome not expected until October 2006. The amount SQA is being sued for is £330,000.

21 Notes to cash flow statement

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

	2006 £'000	2005 £'000
Operating (deficit) before interest	(11,642)	(14,143)
Depreciation	1,911	1,796
Loss on revaluation of fixed assets	-	200
Release of deferred capital grant	(692)	(762)
(Gain) on disposal of fixed assets	(14)	(167)
(Increase)/decrease in debtors	(2,421)	338
Increase in creditors	6,875	539
Increase/(decrease) in provisions	143	(83)
(Increase)/decrease in defined benefit asset	(88)	317
Net cash flow from operating activities	(5,928)	(11,965)

(2) Reconciliation of movement in cash and overdrafts

	2006	2005
Closing cash balance	1	390
Less: opening cash balance	390	-
Increase / (Decrease) in cash	(389)	390

(3) Reconciliation of cashflow to net debt

	2006	2005
(Decrease) / increase in cash	(389)	390
Repayment of Awards UK Limited loan	-	100
Movement in net debt	(389)	490
Net debt at end of previous year	390	(100)
Net funds at end of year	1	390

Notes to the accounts (cont.)

21 Notes to cash flow statement (cont.)

(4) Analysis of movement in net debt

	1 April 2005 £'000	Cash flows £'000	31 March 2006 £'000
Cash, overdrafts and liquid resources	390	(389)	1
	390	(389)	1

22 Post balance sheet events

On 27 April 2006 SQA signed an agreement to sell its Glasgow office, Hanover House, 24 Douglas Street, Glasgow, for consideration of £7,077,000. The carrying value of the building in the accounts as at 31 March 2006 is £3,260,525. The proceeds of the sale are to be paid on receipt by SQA to the Scottish Executive.

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 £1,820,000 (2005: £1,599,000), consisting of £1,679,000 (2005: £1,473,000) to the LGSS Scheme and £141,000 (2005: £126,000) to the TSS Scheme. Included within creditors are outstanding contributions of £202,000 (2005: £180,000) due to the LGSS scheme and £19,000 (2005: £17,000) due to the TSS scheme at 31 March 2006.

Actuarial valuations for both schemes are prepared regularly with the last LGSS valuation to 2005 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 2005 valuation, have set rates based on employees' salaries as follows: 2005/06: 15.0% and 2006/07 15.6%. The TSS, based on the 2001 valuation, has set rates at: 12.5% from 1 October 2004 onwards.

Notes to the accounts (cont.)

23 Pensions (cont.)

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 2006.

The following information relates to the Strathclyde Local Government Superannuation Scheme. The comparative figures have been restated. (see note 26).

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

	31 March 2006 % per annum	31 March 2005 % per annum Restated
Price increases	3.1%	2.9%
Salary increases	4.6%	4.4%
Pension increases	3.1%	2.9%
Discount rate	6.0%	6.5%

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

SQA share of assets	Value at 31 March 2006 £'000	Value at 31 March 2005 Restated £'000
Equities	35,709	26,393
Bonds	4,823	4,637
Properties	4,267	3,567
Cash	2,164	1,070
Total market value of fund assets	46,963	35,667

	Long term return % per annum 31 March 2006	Long term return % per annum 31 March 2005
Equities	7.4%	7.7%
Bonds	4.6%	4.8%
Properties	5.5%	5.7%
Cash	4.6%	4.8%

Notes to the accounts (cont.)

23 Pensions (cont.)

The following amounts at 31 March 2006 and 31 March 2005 were measured in accordance with the requirement of FRS 17.

SQA share of assets and liabilities	Value at 31 March 2006 £'000	Value at 31 March 2005 £'000 Restated
Estimated SQA share of fund assets	46,963	35,667
Present value of SQA share of scheme liabilities	(43,288)	(34,235)
Present value of SQA share of unfunded liabilities	(253)	(207)
Net pension surplus	3,422	1,225

Analysis of amount recognised in the statement of total recognised gains and losses	Year to 31 March 2006 £'000	Year to 31 March 2005 £'000 Restated
Actual return less expected return on pension scheme assets	7,326	1,142
Experience gains and losses arising on the scheme liabilities	72	(805)
Changes in financial assumptions underlying the present value of the scheme liabilities	(5,289)	-
Actuarial gain recognised in STRGL	2,109	337

Movement in surplus/deficit during the year	Year to 31 March 2006 £'000	Year to 31 March 2005 £'000 Restated
Profit/(deficit) in scheme at beginning of year	1,225	(8,766)
Movement in year:		
Result of change to discount rate	-	9,189
Current service cost	(1,841)	(1,301)
Contributions	1,690	1,543
Contributions in respect of unfunded benefits	14	13
Net return on assets	225	210
Actuarial gain	2,109	337
Profit in scheme at end of year	3,422	1,225

Notes to the accounts (cont.)

23 Pensions (cont.)

History of experience gains and losses	Year to 31 March 2006 £'000	Year to 31 March 2005 £'000 Restated	Year to 31 March 2004 £'000	Year to 31 March 2003 £'000
Difference between the expected and actual return on assets	7,326	1,142	4,160	(7,211)
Value of assets	46,963	35,667	29,675	21,866
Percentage of assets	15.6%	3.2%	14.0%	(33.0%)
Experience gain/(losses) on liabilities	72	(805)	56	108
Present value of liabilities	43,541	34,442	38,440	31,491
Percentage of the present value of liabilities	0.2%	(2.3%)	0.1%	0.3%
Actuarial gain in STRGL	2,109	337	1,787	(8,450)
Present value of liabilities	43,541	34,442	38,440	31,491
Percentage of present value of liabilities	4.8%	1.0%	4.6%	(26.8%)

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, £91,000 (2005:£98,000) 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, £474,000 (2005: £641,000) 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 £246,000 (2005: £287,000) to Awards UK Limited, a 50% owned joint venture company (see note 13). SQA owed Awards UK Limited £4,000 at 31 March 2006.

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

Notes to the accounts (cont.)

25 Related parties (cont.)

year period or on leaving the organisation if earlier. A balance of £2,000 was outstanding at 1st April 2005, and this balance was paid off during the course of the year.

During the year SQA levied entry charges totalling £321,000 to Glasgow College of Nautical Studies. These transactions were made in the normal course of business. At the year end £23,000 was owed to SQA. This organisation is a related party as SQA Chief Executive, Anton Colella, holds the position of Board Member there.

Additionally, during the year SQA levied charges of £12,000 to SFEU. In addition, SQA incurred charges of £35,000 to SFEU. These transactions were made in the normal course of business. At the year end £12,000 was owed by SQA. This organisation is a related party as SQA Chief Executive, Anton Colella, is a member of the SFEU Board.

During the year SQA levied entry charges totalling £302,000 to Jewel and Esk Valley College. In addition, £81,000 of charges were incurred by SQA from Jewel and Esk Valley College. These transactions were in the normal course of business. At the year end £2,000 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.

During the year SQA levied entry charges totalling £448,000 to Forth Valley College. In addition, SQA incurred charges of £89,000 from Forth Valley College. These transactions were in the normal course of business. At the year end £92,000 was owed to SQA. Forth Valley 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 £352,000 to Stevenson College. In addition, £18,000 of charges were incurred by SQA from Stevenson College. These transactions were in the normal course of business. At the year end £21,000 was owed to SQA. Stevenson College is a related party as SQA Director, Maidie Cahill, holds the position of Board Member and Vice-Chair there.

During the year, SQA incurred charges of £77,000 from Heriot Watt University. 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.

During the year, SQA levied charges of £39,000 to Learning and Teaching Scotland. In addition, SQA incurred charges of £5,000 from Learning Teaching Scotland. These transactions were in the normal course of business. At the year end £20,000 was owed to SQA. Learning Teaching Scotland is a related party as SQA Board Member, John Mitchell, holds the position of Board Member there and another SQA Board Member, Margaret Nicol, holds the position of member of the Advisory Council there.

Additionally, SQA incurred charges of £6,000 from Madras College. These transactions were in the normal course of business. Madras College is a related party as Board Member, Margaret Nicol, holds the position of Principal Teacher 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.

Notes to the accounts (cont.)

26 Prior Period Adjustment

Comparative figures have been restated to correct a fundamental error in the financial statements for the year ended 31 March 2005. Since completion of the 31 March 2005 financial statements SQA has been informed by the actuary of the Strathclyde Local Government Superannuation Scheme of an error in that years FRS 17 valuation. The error was caused by the use of an incorrect discount rate. The correction of this error has resulted in the pension valuation now being disclosed as an asset of £1,225,000 as compared to a liability of £8,938,000 as previously reported. The movement of £10,163,000 has been disclosed as a prior year adjustment in the statement of total recognised gains and losses and has adjusted opening reserves.

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 for the financial year ended 31 March 2006, and subsequent years, shall comply with the accounting principles and disclosure requirements of the edition of the Government Financial Reporting Manual (FReM) which is in force for the year for which the statement of accounts are prepared.

3.   The accounts shall be prepared so as to give a true and fair view of the income and expenditure and cash flows for the financial year, and of the state of affairs as at the end of the financial year.

4.   This direction shall be reproduced as an appendix to the statement of accounts. The direction given on 4 October 2002 is hereby revoked.

Signed by the authority of the Scottish Ministers

Dated 31 January 2006