



Annual Report and Accounts 2014–15

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Chairman's and Chief Executive's welcome

We are delighted to present the Scottish Qualifications Authority's (SQA) Annual Report and Accounts for 2014–15, highlighting another successful year for the organisation. Important factors in this success have been our clear focus on partnership, engagement, and consultation — all of which have helped us deliver our many commitments to users and stakeholders, and to the people and economy of Scotland.

Underpinning these commitments is our support for the Scottish Government's strategies to generate growth in Scotland's economy at a time of global economic challenge, and to promote Scotland as a great place to live, work, study, and do business. Crucial to these strategies is our continued development of qualifications and services that benefit learners and employers by providing the breadth and depth of knowledge and skills that are essential to economic growth and productivity, and which also empower and encourage learners to pursue opportunities to learn throughout life.

One major ongoing responsibility has been our contribution to the development and implementation of Curriculum for Excellence through the provision of a wide range of qualifications and assessments to meet the diverse needs of all learners. During the development of each qualification we have consulted widely with practitioners and subject experts to create the qualifications that equip learners for the 21st century.

This year SQA has worked with schools, colleges and other partners to continue to implement the new National Qualifications with particular focus on the new Highers, which were introduced in session 2014–15. Our Understanding Standards programme provides ongoing support to schools, colleges and teaching staff across Scotland.

SQA has continued to engage strongly with the college sector, ensuring that we provide the support it requires as colleges continue to transform into multi-campus regional colleges. We have worked closely to understand the changing data management requirements and have provided support to help colleges understand the standards for the new National Qualifications with more colleges delivering the new Courses for the first time this year.

SQA qualifications and services continued to be in high demand, not only in Scotland but also in the rest of the UK and internationally, and we continue to deliver a wide range of contracts and consultancy projects.

As a customer-focused organisation, we are working to offer customers better service by delivering efficient, scalable and new enabling approaches through the use of technology to digitally transform our organisation. This work will ensure that SQA continues to deliver what learners will need in the future.

We would like to thank staff, appointees, partners, users and stakeholders for your valuable contributions to our success over this year and we look forward to your future support.

Graham Houston
Chairman
Scottish Qualifications Authority
19 August 2015

Dr Janet Brown
Accountable Officer and Chief Executive
Scottish Qualifications Authority
19 August 2015

1: Strategic report

SQA is the national accreditation and awarding body in Scotland. The Education (Scotland) Act 1996 sets out SQA's functions and the governance arrangements to oversee SQA's distinct accreditation, regulatory and awarding functions. SQA is sponsored by the Scottish Government's Learning Directorate.

In its accreditation role, SQA accredits vocational qualifications that are offered across Scotland, including Scottish Vocational Qualifications, and approves awarding bodies that wish to award them.

SQA is the statutory awarding body for qualifications in Scotland. Its duties are to develop, validate, quality assure and award a national framework of qualifications for Scotland. In addition, SQA has a statutory duty as the regulator for National Qualifications in Scotland as defined by the Equality Act (2010).

As an awarding body, SQA works with schools, colleges, universities, industry, and government, to provide high quality, flexible and relevant qualifications. It strives to ensure that its qualifications are inclusive and accessible to all, that they recognise the achievements of learners, and that they provide clear pathways to further learning or employment.

SQA qualifications

Qualifications serve a range of important purposes in validating learning for individuals and for employers:

- ◆ They support the standards of achievement required by the economy, businesses, and society.
- ◆ They show the achievements of the individual.
- ◆ They provide a record of an individual's progression as they develop through life, allowing them to build on their prior learning.

To achieve this, SQA qualifications must:

- ◆ reflect the appropriate level of learning, and capture all aspects of the required skills
- ◆ be flexible enough to suit different learning styles and different employers' needs
- ◆ provide units of learning that are relevant, valued and can be used to benefit the individual, society and business
- ◆ allow for progression through lifelong learning as the needs of individuals, society and businesses change
- ◆ be of a quality and standard that ensures that value and credibility is maintained over time

There are SQA qualifications for everyone:

- ◆ students in schools and colleges
- ◆ trainees and apprentices
- ◆ people who already have qualifications, and those who don't
- ◆ people who are in employment, and those who aren't

SQA qualifications cover a broad range of skills and knowledge, from Languages, Mathematics, History, and Science, to Accounting, Early Years Childcare, Conservation of Masonry, and Customer Service. In addition, SQA develops Customised Awards that are tailored to the requirements of particular employers, and provides English Language qualifications for learners whose first language is not English.

Almost all young people in Scotland gain SQA qualifications in secondary school and/or in further education colleges. Increasingly, SQA provides qualifications from junior to professional levels in the workplace. SQA ensures that all qualifications are developed and maintained to the same rigorous high standards, and that they all make valuable and unique contributions to Scotland's Skills Strategy.

SQA Accreditation

SQA also has a responsibility, through its accreditation function, to set and maintain standards for awarding bodies, and for accredited qualifications such as Scottish Vocational Qualifications and other licence to practice qualifications. The accreditation function is a discrete and autonomous part of SQA, and is accountable to the Accreditation Committee and then to Scottish Government. The Accreditation Committee is a statutory committee having been established by the Education (Scotland) 1996 Act.

You can read more about qualifications developments and SQA's work in accreditation in 2014–15 in the Management Commentary (section 1.3, Strategic Goal 8).

1.1: SQA's operating environment

An important focus for SQA during this period, and in the future, continues to be working with partners and other stakeholders to develop and deliver significant changes to the qualifications and assessment system in support of Curriculum for Excellence. Curriculum for Excellence allows for a blended and flexible approach to learning, where schools and their partners now have much greater flexibility in delivery and to offer a wider range of pathways and options, including vocational qualifications, which meet the needs of every learner. SQA has a clear role in improving the learner's journey through education and skills development and supporting better progression. SQA is committed to working with partners to implement the recommendations of the Developing the Young Workforce programme to ensure every young person has the widest range of opportunities and options in their senior phase to help prepare them for the world of work. SQA will continue to work towards delivery of its commitments to support sustainable economic growth.

It is also imperative that SQA continues to seek every opportunity to maximise efficiency, effectiveness and value for money in developing and delivering its services. There will be further challenges and opportunities in the future, and SQA will continue to innovate.

To maintain its commitment to providing a high quality qualifications service for Scotland, SQA is enhancing its capability to respond to the needs of learners, employers, business, industry, the economy, and society. New processes and future implementation of information technology will support increasing demand for online, on-demand and at-a-distance delivery of learning and assessment to support learners' needs.

SQA is continuing to work in partnership with others across the country to promote Scotland's ability to maximise the emerging opportunities in a future low-carbon economy. In these ways, and many others highlighted in this report, SQA is working to ensure that it is well placed to respond to future opportunities and challenges.

1.2: How SQA operates

As part of the wider Scottish education, skills and training sector, SQA works in strong partnerships to develop and deliver its corporate objectives.

SQA works with colleagues in the Learning and the Employability, Skills and Lifelong Learning Directorates of the Scottish Government to develop its objectives (which are approved by the Scottish Ministers). The organisation engages with Scottish Government colleagues in these and other Directorates in the delivery of all of the organisation's functions and services. SQA has adopted a more strategic approach to partnership working across the education and training sectors in recent years, and recognises how its responsibilities and commitments to Scottish Government contribute to the National Outcomes.

SQA is continuing to build its capacity to become a more flexible organisation, able to anticipate and respond quickly to the needs of Scottish employers, educators, learners, and policy-makers, while maintaining the quality of its qualifications and services. SQA has striven to embed efficiency and make best use of public resources across all aspects of its business.

1.3: Management commentary

SQA's Corporate Plan 2014–17 sets out the organisation's strategic direction for the coming years. It covers activities for both SQA's accreditation and awarding functions, and clearly links the organisation's strategic goals to the Scottish Government's expectations of SQA and to the National Outcomes. The strategic goals take account of the context of the environment in which SQA operates, and are set by the SQA Board of Management. The strategic drivers that were identified when developing the Corporate Plan 2014–17 include:

- ◆ SQA's vision, mission and values
- ◆ ministerial guidance on SQA's contribution to development and implementation of Scottish Government policy
- ◆ public sector efficiency and partnership

Goal 1: Develop, deliver and maintain a portfolio of qualifications and services to support the needs and aspirations of Scotland, its people and its economy

2014–15 Qualifications development

SQA's role is to develop the new National Qualifications and assessments required to support the introduction and reflect the aims of Curriculum for Excellence. SQA has developed over 250 National Courses and Awards at Scottish Credit and Qualifications Framework (SCQF) levels 1–7 (from National 1 to Advanced Higher), and their associated assessments. The overall aim is to ensure young people are certificated with qualifications that are credible and valued by employers, colleges and universities. The organisation has provided support and training to help practitioners understand, apply and maintain national standards.

SQA works in partnership with colleges to offer National Certificates (NCs) and National Progression Awards (NPAs) at SCQF levels 2–6, providing progression routes from non-advanced levels into employment and to Higher National Certificates/Diplomas (HNC/Ds) at SCQF levels 7 and 8, as well as to other qualifications. Scottish Vocational Qualifications (SVQs) are also offered across a wide range of sectors.

SQA also works closely with industry, professional bodies, colleges and training providers to understand employers' requirements and to embed appropriate industry standards as products are developed. Around 150 vocational qualifications across SCQF levels have been revised during the year.

Qualifications delivery

2014 Certification

One of SQA's main responsibilities is the certification of National Qualifications for candidates in schools and colleges across Scotland. SQA successfully achieved the key performance measures agreed with the Scottish Government.

SQA undertakes a year-round cycle of assessment design, recruitment of examination teams, markers and other appointees, to support the delivery of examinations and quality assurance of internal and external assessment leading to NQ certification in August. This is followed by the Post-results Services process, with the outcomes being resulted in August for Priority Marking Review requests and in September for Clerical Check and Marking Review requests. The progress of these activities is closely monitored throughout the year.

A total of 146,181 certificates were issued for delivery on 5 August 2014. Candidates were also given the opportunity to receive their results by e-mail and text.

SQA continues to certificate the highly valued Higher National and vocational qualifications three times each week. In 2014–15, 195,797 Group Award and Unit certificates were sent to candidates and centres in Scotland, across the UK and throughout the world.

Sourcing and training appointees and nominees

Around 15,000 teaching professionals and specialists covered 23,000 appointments/nominee roles, to support SQA operations during 2014–15. Their professional input

continues to define and support the development, assessment and quality assurance of our qualifications.

SQA is committed to delivering training programmes and enhanced continued professional development (CPD) to ensure that appointees and nominees are fully equipped to undertake their various roles to support our activities, their schools, local authorities, and candidates.

New National Qualifications

Given the scale of changes to qualifications, SQA regards communication as a priority. It issues a monthly e-newsletter to illustrate the various work-streams, events and new documentation. Additionally, SQA has provided special update information throughout the year on significant topics as they arose.

In response to feedback, the Curriculum Development Team developed a series of new documents that were aimed at supporting teachers as they introduced the new qualifications. This included a 'Use of Past Papers' document illustrating how these can be used with the new qualifications and a 'Stability and Points of Change' paper, which provides an overview of the progression through different qualification levels

In 2015, SQA delivered a further 76 events to support the introduction of the new qualifications which were attended by around 4000 delegates and 91 CPD events for 3,800 delegates. In addition, SQA offered to deliver bespoke subject-specific CPD for local authorities with 1,324 delegates attending 348 events.

Quality assurance

In developing its quality assurance models, SQA maintains a clear focus on its goal of having a transparent, intelligence-led, risk-based approach to quality assurance of approved centres and potential centres and the qualifications they offer.

National Qualifications

In 2014–15, SQA continued to work closely with key stakeholders to develop approaches to quality assurance for the new National Qualifications. Various events for subject nominees were held in September, and wider access to Understanding Standards events was available from November for other staff, with materials published on the website subsequently.

SQA also developed an internal verification toolkit that centres could opt to use to support their processes. Round 1 of verification was completed in the spring of 2015 and details were published on the separate subject pages of the website.

Higher National (HN) and vocational qualifications

SQA has consolidated the current quality assurance approach and all centres offering HN and vocational qualifications are now quality assured using this approach.

An independent evaluation carried out by external consultants has highlighted:

- ◆ SQA's approach to quality assurance continues to deliver long-term value. The current quality assurance approach had a smaller cost impact on centres than some of them had anticipated.

- ◆ Centre's perceptions of the effectiveness of this quality assurance approach have improved as a result of a new planning process.

Work on a refresh of the current quality assurance approach of HN and vocational qualifications is nearing completion. This will be introduced in August 2015 for a three-year period.

Goal 2: Provide leadership and expertise in a range of areas including assessment, qualification development and quality enhancement

Awarding and assessment standards

As a self-regulating awarding body, SQA is required to demonstrate how it ensures that its qualifications are of a high quality and fit for purpose, and that the delivery of these qualifications is monitored and assessment standards are maintained.

Monitoring standards over time

This year SQA's ongoing monitoring standards over time activity looked at nine National Courses, and Unit assessments from two Higher National Group Awards. In each case, Monitoring panels compared specification, assessments and candidate work from two different years.

National Course Assessment Survey

SQA carried out our open web-based National Course Assessment Surveys for Diet 2014. SQA also trialled an additional targeted survey to obtain more detailed information on selected subjects. SQA is continuing to explore alternative approaches in this area in future years.

Monitoring and evaluation activities

SQA's initial monitoring and evaluation of Curriculum for Excellence commenced this year with the commissioning of external research in areas including validity, skills development and grading. This involved both desk-based research and engagement with practitioners.

Strategic Goal 3: Support the Scottish Government's agendas to maximise the benefits of international engagement and co-operation

SQA's international engagement activities continue to support the Scottish Government's international strategy; its plans to engage with specific countries; and the promotion of Scottish education and Scotland worldwide. Increasing opportunities to learners, supporting workforce development and helping to build in-country capacity have been at the heart of SQA's approach to opportunities and engagement.

Through its work, SQA has provided a range of qualifications and delivered a number of consultancy projects which have increased the reputation of Scotland's education and training system. This is reflected in the increased interest in SQA services in many different

countries throughout the world and, in particular, there has been increased demand for HNDs and Customised Awards and for assistance to develop in-country vocational qualifications and national qualifications frameworks.

SQA consolidated its work with international universities to enhance and increase the international mobility of students seeking to complete part of their degree at an overseas university. SQA HND qualifications are currently being accepted for advanced entry into universities in Scotland, the rest of the UK, and in countries such as Australia, New Zealand, Sweden and South Korea. The Diploma to Degree programme was firmly established and has recently generated interest from universities in a number of countries including the USA and Canada.

SQA continued to promote Scotland and its education system by hosting a wide range of study visits from overseas organisations interested in developing knowledge of Scotland's education system and practices. Engagement with international partners, organisations and agencies ensured SQA continued to enhance its expertise and skills, which will help to ensure the sustainability of Scotland's international engagement strategy in the future.

Goal 4: Deliver high-quality, continually improving, efficient and responsive services to our customers

Customer and stakeholder engagement

SQA continued to engage with its customers and stakeholders and remained responsive to changing needs brought about by developments in the education landscape in Scotland, other parts of the UK, and internationally. In all regions, SQA's qualification development staff, project managers/teams, and account managers/teams worked in partnership with centres, customers and stakeholders to provide support, advice and assistance, as required.

In Scotland, there was continued strong partnership, engagement and communication around Curriculum for Excellence and college regionalisation, and SQA recognises its place as key to the recommendations of the Commission for Developing the Young Workforce.

In other parts of the UK, SQA supported employers and centres — particularly through its Trailblazer apprenticeship activities. Internationally, a number of continuing professional development events were established to enhance centre and customer relations, and SQA worked with international partners and stakeholders on a range of capacity-building projects. Work continued on SQA's website to enhance communication with, and providing information to, customers and stakeholders.

Investment in technology to support assessment, learning and quality assurance

Over the past year, SQA continued to work with key strategic suppliers to make greater use of technology to support assessment, learning and quality assurance for our qualifications.

The organisation scaled up its e-marking and on-screen assessment delivery particularly for the new qualifications for Curriculum for Excellence and began work to explore and support quality assurance of digital evidence and digital capture of examination responses.

Goal 5: Continue to develop SQA as a leading public body and key player in the education, skills and training landscape

SQA has a crucial role to play in ensuring the skills and education systems in Scotland are effective. To do this, the organisation works closely with other stakeholders in Scotland. In particular, it works very closely with both Education Scotland and the Scottish Government in implementing Curriculum for Excellence, ensuring there is a suite of new national qualifications created to support Scotland's new curriculum and deliver success for Scotland.

SQA also works closely with other key stakeholders, such as the Convention of Scottish Local Authorities (COSLA), the Scottish Council of Independent Schools (SCIS), the Association of Directors of Education in Scotland (ADES), teaching unions, School Leaders Scotland (SLS) and colleges, and works hard to build confidence and trust in the new National Qualifications in the broader community.

Working together with Colleges Scotland to continuously develop the national portfolio of qualifications is a key relationship in ensuring that Scotland's skills and knowledge-based qualifications remain world class.

Equality in SQA

Equality is something that SQA takes very seriously and the organisation is committed to integrating equality across all its functions, covering each one of the protected characteristics defined in the Equality Act 2010. SQA's [Equality Mainstreaming Report](#), which was approved in March 2015, presents SQA's progress towards achieving the Equality Outcomes set out in the Equality Strategy 2013–17.

Statutory responsibilities

SQA continues to ensure that it complies with all statutory instruments relating to employment, equalities, data protection, freedom of information and public records.

Goal 6: Continue to develop a business model that would enable SQA to achieve self-financed status, and invest in and improve the education and skills system

SQA is committed to working to reduce its dependency on the public purse and has continued to build its presence in competitive markets in Scotland and in markets outside Scotland. Through a range of activities, stakeholder engagement and customer relationship management, SQA increased the number of centres offering SQA qualifications and also saw a growth in the number and range of qualifications offered by existing centres.

Success was also evident from an increase in demand for SQA services and projects delivered on behalf of other organisations, institutions and government agencies. SQA was successful in a number of tenders in the UK and internationally.

Pricing model

2014–15 is the second year of a three-year arrangement with local authorities whereby SQA charges a fixed amount for the delivery of National Qualifications. The fixed charge, which is based on the fees charged for candidate entries in 2012–13, was introduced to provide

stability in budgets over the three-year implementation of the new qualifications. The Scottish Government has commenced discussions with SQA, COSLA and the Association of Directors of Education on the new pricing model to be introduced in August 2016 at the start of the 2016–17 academic year.

Goal 7: Ensure our culture and values support the engagement and wellbeing of our staff and foster their commitment to the success of SQA

SQA recognises the immense contribution made by its staff. The HR strategy is designed to ensure that we have people with the right skills and behaviours in the right place at the right time.

Building on our values of 'trusted, progressive and enabling', the HR strategy has four key strands:

- ◆ Organisational structure: ensuring SQA is structured appropriately as Curriculum for Excellence (CfE) migrates towards business as usual and progresses its digital transformation objectives.
- ◆ Working patterns and styles that support business priorities: developing ways of working that enable SQA to respond quickly to market pressures and keep pace with growth.
- ◆ Developing skills/transforming behaviours: giving staff the necessary development to enable them to operate at the top of their game with an agile, change-ready, mind-set.
- ◆ Employee engagement: providing an environment which encourages staff members to give of their best and be proud to work for SQA.

To help achieve the HR strategy, SQA works collaboratively with the Trade Unions through its Partnership Group. The group is made up of members from SQA's recognised Trade Unions of Unite and Unison, SQA's Executive Team and the Human Resources Team.

In September 2014, SQA undertook a Staff Survey which had an 87% response rate. The engagement score was 82%, an increase of 2% on the previous 2012 survey and is an extremely encouraging outcome with positive variations from central government benchmarking of between 12% and 28% for 2014.

The survey showed that 96% of staff are committed to helping SQA achieve its goals, with 80% of staff feeling proud and satisfied to work for SQA and would recommend it as a good place to work.

Goal 8: Accredite and assure the quality of qualifications delivered in Scotland (other than those conferred by higher education institutions), subject to demand and statutory requirement

SQA Accreditation continues to work with the UK Commission for Employment and Skills on the Universal Services funding arrangements for the development of National Occupational Standards and Scottish Vocational Qualification structures. As with the first and second years of this funding strategy, 2014–15 saw a high volume of projects being submitted for

approval between December and February. Again, SQA Accreditation staff were able to manage the activity ensuring that all projects were approved to ensure continued provision in Scotland.

In 2010, SQA Accreditation advised that all SVQs would be credit rated for inclusion on the SCQF, and that an interim naming convention would be used in which the SCQF level would be added to the qualification title. Further consultation is required with a number of awarding bodies and stakeholders, but it is hoped that the new titling convention will be implemented in 2016–17.

In January 2015, SQA Accreditation launched its own dedicated website to provide better support for its stakeholders.

1.4: Financial performance

Financial overview

The results for the year to 31 March 2015 are shown in the attached accounts (see section 7), which have been prepared in accordance with the 2014–15 *Government Financial Reporting Manual*.

A budget is agreed with Scottish Government (known as Departmental Expenditure Limit or DEL). This is to cover cash costs, being accrued expenditure (capital and operating) net of income from other sources such as income from activities, and non-cash cost of depreciation and impairments.

2014–15 was the second year (of three), of implementation of CfE and saw the introduction of the new Higher. This was a particularly challenging year in financial terms with significant costs associated with dual running of Highers and the new Higher. However, SQA met its target with the outturn position in line with the original budget.

Income

SQA's income is generated from charging for the delivery of its products and services. Total income of £50.6m was obtained in 2014–15, being entry charges £41.6m (2013–14 £45.6m) and other income £9.0m (2013–14 £7.3m).

Entry charges income in Scotland is lower than the previous year by £4.3m. A reduction of £9.0m is due to the final Standard Grades examinations taking place in 2013–14, offset by entry charges of £4.8m as candidates move to the new National Qualifications. 2014–15 saw growth in the International awarding market of £0.3m. Contracts income and International Consultancy income have also increased from the previous year by £1.7m.

Expenditure

Operational costs were £74.3m, being staff costs £34.2m (2013–14 £30.5m); other expenditure £38.0m (2013–14 £38.6m); and depreciation £2.1m (2013–14 £2.5m).

The increase in staff costs is attributable to an increase in the costs of wages and salaries from the impact of the pay award and an increase in headcount, mainly for Curriculum for Excellence and income-generation activity. Pension costs have increased as a result of the actuarial revaluation of the defined benefit liability.

A fall in appointee costs (£1.4m), mainly as a result of no longer running Standard Grade examinations, has resulted in a reduction of other expenditure. This is offset by increased costs associated with income-generation activity (£0.7m).

Property, plant and equipment

Expenditure on capitalised property, plant and equipment during the period totalled £0.252m. This was primarily used to purchase IT equipment (£0.026m), plant and machinery (£0.012m) and to develop assets under construction (£0.214m).

Intangible assets

Expenditure on capitalised intangible assets during the period totalled £0.201m. This was wholly used to purchase IT software.

Public Services Reform (Scotland) Act 2010

Statements of expenditure for 2014–15 in relation to the following can be found on SQA's website:

- ◆ Public relations
- ◆ Overseas travel
- ◆ Hospitality and entertainment
- ◆ External consultancy
- ◆ Payments in excess of £25,000

Efficiency, effectiveness and economy

SQA plans to make efficiency savings in each financial year in support of the Scottish Government's efficiency agenda. In general, efficiency savings are achieved by embedding a culture of efficiency across the organisation and by ensuring that there is no reduction in outputs or quality of service as a result of achieving these efficiencies. SQA has a process and procedures in place to identify both time-releasing and cash-releasing savings, although cash-releasing savings are becoming more challenging to identify.

1.5: The future

The Corporate Plan 2015–18 sets SQA's strategic direction for the next three years, covering both SQA's accreditation and awarding functions. The plan has built on the approach taken in recent years, ensuring that the organisation's mission statement and strategic goals support the Scottish Government's National Outcomes.

SQA's purpose is to provide products and services in skills, training and education which positively impact on individuals, organisations and society.

SQA's Vision is: 'We will digitally transform our organisation to offer customers better service by delivering efficient, scalable and new enabling approaches.'

Strategic goals

SQA's strategic goals for 2015–18, which have been mapped to the Scottish Government's National Outcomes and to its Public Bodies Corporate Expectations, are:

- 1 Develop, deliver and maintain a portfolio of qualifications and services to support the needs and aspirations of Scotland, its people and its economy.
- 2 Provide leadership and expertise in a range of areas including assessment, qualification development and quality enhancement.
- 3 Support the Scottish Government's agendas to maximise the benefits of international engagement and co-operation.
- 4 Ensure our culture and values support the engagement and wellbeing of our staff and foster their commitment to the success of SQA.
- 5 Deliver high-quality, continually improving, efficient and responsive services to our customers.
- 6 Continue to develop SQA as a leading public body and key player in the skills, training and education landscape.
- 7 Continue to pursue a business model that would enable SQA to achieve self-financed status, and invest in and improve the education and skills system.
- 8 Independently accredit, quality assure and regulate approved awarding bodies and qualifications thereby safeguarding the interests of learners, employers, parents, funding bodies, providers and the Scottish Government.

Dr Janet Brown
Accountable Officer and Chief Executive
Scottish Qualifications Authority
19 August 2015

2: Directors' report

Directors and their interests

The Directors who held office during the year and to the date of signing of these financial statements were as follows:

Chairman

Graham Houston

Chief Executive

Dr Janet Brown

Non-Executive Board Members

Jim Edgar

Kenny McKay

Raymond O'Hare

Roger Stewart

Dr Paul Thomson

Susan Walsh

Carole Wilkinson

Executive Management Team

Jean Blair (promoted to Director of Operations 29.9.14)

Maidie Cahill

Stuart Davidson

Linda Ellison

Eric Martinez (employment ended 31.10.14)

John McMorris

Dr Gill Stewart

Information on salary and pension entitlements can be found in the Remuneration Report.

Conflicts of interest procedures

SQA has comprehensive procedures for dealing with potential conflicts of interest. These include holding, and updating at least annually, registers of Board members interests. These registers are available to any member of the public who wishes to examine them. Interests that must be registered, in terms of the name and nature of the organisation in which the interest is held, include: remuneration, related undertakings, contracts, houses, land and buildings, shares and securities, and non-financial interests. Declarations by Board members of any conflicts of interest are recorded in the minutes of the appropriate Board meetings.

Attendance management

SQA accepts that employees will be prevented from attending work due to illness or injury from time to time. Although the organisation recognises that employees need to be properly supported during absences, our priority is to meet our operational objectives. As a result, we take distinct steps to balance the needs of the individual with the needs of the organisation

and to effectively manage sickness absence. To achieve this balance, working with our Occupational Health Advisors, we take a positive and pro-active approach to attendance management. We also offer a range of services that staff can access to help them with their own wellbeing.

These include:

- ◆ advising all employees and line managers of their roles and responsibilities in managing absence through appropriate training, guidance and support
- ◆ monitoring and analysing absence and providing useful Management Information
- ◆ supporting employees with regular short-term absence to improve their level of attendance
- ◆ assisting employees on long-term absence to return to work successfully via individually tailored return to work plans
- ◆ allowing staff to self-refer to our Occupational Health Advisor on a confidential basis
- ◆ providing a number of annual 'Life Style Health' checks to staff providing information on height, weight, body mass index, cholesterol and blood pressure
- ◆ offering sessions to staff to help them with their own wellbeing at work, including those on managing stress or mindfulness
- ◆ providing access to a confidential Employee Assistance scheme to provide advice or counselling when dealing with issues of a personal, financial or legal matter

In 2014–15, an average of 9.87 days (including leavers) was lost per staff year (11.3 days in 2013–14).

Auditor

The Auditor General for Scotland has appointed KPMG LLP to undertake the audit for the year ended 31 March 2015.

Disclosure of information to auditor

The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditor is unaware; and each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Payments to suppliers

SQA aims to pay suppliers within 10 days of receipt of a valid invoice. Performance against this aim during 2014–15 was 99% (2013–14: 98%) of suppliers being paid within 10 days.

Pension deficit

SQA has reported a pension deficit of £28.331m in the annual accounts under IAS 19, the International Financial Reporting Standard that relates to the disclosure of pension

arrangements. This deficit has been advised by Hymans Robertson, the actuary to the Local Government Pension Scheme, of which SQA is a member. Details of SQA's pension costs are included in the notes to these accounts.

Personal data related incidents

Section 417 of the Companies Act 2006 requires that organisations report on personal data related incidents. In 2013–14, we had no reported personal data incidents.

Dr Janet Brown
Accountable Officer and Chief Executive
Scottish Qualifications Authority
19 August 2015

3: Remuneration report

3.1: SQA's staff

SQA's Executive Team is responsible for the management of the business. The Chief Executive is appointed by a Non-Executive Board, subject to approval of Scottish Ministers. The Chief Executive's contract, as agreed with the Scottish Government, is a separate contract, with a notice period of six months. Other members of the Executive Team are employed on standard SQA contracts of employment, with a notice period of three months. The remuneration for the Chief Executive is determined by SQA's Remuneration Committee in conjunction with the Scottish Government Pay Policy Unit.

The remuneration of other members of the Executive Team is determined by the organisation complying with Scottish Government Pay Policy and Guidance to ensure affordability. The remuneration of all other members of staff is also determined by the organisation, in conjunction with the Trade Unions, complying with Scottish Government Pay Policy and Guidance to ensure affordability.

3.2: Pension provision

Pension benefits are provided through the Local Government Pension Scheme (LGPS) and Scottish Teachers' Superannuation Scheme, administered by the Scottish Public Pensions Agency (SPPA). Both schemes include a tax-free cash lump sum and a pension, both based on period of membership and final pay near to retirement. Employee contributions from 1 April 2014 are based on full-time equivalent pay as at 31 March for LGPS (see below) and on full-time equivalent pay as at 1 April for the Scottish Teachers' Superannuation Scheme (see below). For 2014–15 employer's contributions of £4,070,120 were payable in total. These contributions were based on 19.3% for LGPS pensionable pay and 14.9% for SPPA pensionable pay.

Further details about the LGPS and SPPA arrangements can be found on their websites www.lgps.org.uk and www.sppa.gov.uk.

Strathclyde Pension Fund contribution rates 2014–15

Pay tranche	Contribution rate paid on that tranche
Up to and including £20,335	5.50%
Above £20,335 and up to £24,853	7.25%
Above £24,853 and up to £34,096	8.50%
Above £34,096 and up to £45,393	9.50%
Above £45,393	12.00%

Scottish Teachers Superannuation Scheme contribution rates

Full-time equivalent pensionable pay	Contribution rate 2014–15
Up to £14,999	6.4%
£15,000 - £25,999	7.2%
£26,000 - £31,999	8.3%
£32,000 - £39,999	9.5%
£40,000 - £44,999	9.9%
£45,000 - £74,999	11.0%
£75,000 to £99,000	11.6%
£100,000 and above	12.4%

3.3: SQA's Non-Executive Board

Members of SQA's Board of Management, with the exception of the Chief Executive, are appointed by Scottish Ministers for a fixed period, normally four years.

The members of the Board are appointed by Scottish Ministers from a range of backgrounds from the public and private sectors. Board members are paid a monthly fee on the basis of their duties that are set and reviewed annually by the Scottish Government (effective 1 April). The Chairman's level of remuneration is set and reviewed annually by the Scottish Government (effective 1 April).

3.4: Remuneration Committee

The Remuneration Committee sets the annual performance plan for the Chief Executive and recommends an annual pay award and bonus, where relevant, to the Scottish Government. The Committee meets a minimum of once a year. The members of the Committee during 2014–15 were:

- ◆ Mr Graham Houston (SQA Chairman and Convenor of the Remuneration Committee)
- ◆ Susan Walsh (SQA Board Member)
- ◆ Ms Carole Wilkinson (SQA Board Member)
- ◆ Dr Janet Brown (SQA Chief Executive and Officer of the Committee)
- ◆ Ms Maidie Cahill (Officer of the Committee)

3.5: Disclosure of remuneration

The salary and pension entitlements earned during the year by SQA's senior staff in the roles noted are shown in the tables that follow.

This section of the Remuneration Report is subject to audit.

	2014-15				2013-14			
	Salaries and other payments	Benefits in kind	Pension	Total	Salaries and other payments	Benefits in kind	Pension	Total
	£'000	£	£	£'000	£'000	£	£	£'000
Chairman								
Graham Houston	10-15	900 ¹	-	10-15	10-15	1400 ¹	-	10-15
Chief Executive								
Dr Janet Brown	125-130	-	24,000	145-150	120-125	-	24,000	145-150
Non-Executive Board Members								
Jim Edgar	0-5	400 ¹	-	0-5	0-5	200 ¹	-	0-5
Kenny McKay	0-5	100 ¹	-	0-5	0-5	-	-	0-5
Raymond O'Hare	0-5	-	-	0-5	0-5	500 ¹	-	0-5
Roger Stewart	0-5	800 ¹	-	0-5	0-5	500 ¹	-	0-5
Dr Paul Thomson	0-5	400 ¹	-	0-5	0-5	700 ¹	-	0-5
Susan Walsh	0-5	300 ¹	-	0-5	0-5	200 ¹	-	0-5
Carole Wilkinson	0-5	200 ¹	-	0-5	0-5	200 ¹	-	0-5
Directors								
Jean Blair**	40-45	-	8,000	45-50	-	-	-	-
Maidie Cahill	85-90	-	17,000	100-105	80-85	-	16,000	95-100
Stuart Davidson	80-85	-	16,000	95-100	5-10	-	1,000	5-10
Linda Ellison	65-70	-	-	65-70	60-65	-	-	60-65
Eric Martinez*	60-65	-	-	60-65	100-105	-	-	100-105
John McMorris	85-90	-	16,000	95-100	80-85	-	16,000	95-100
Dr Gill Stewart	90-95	-	17,000	105-110	90-95	-	17,000	105-110
Band of Highest Paid Director's Total Remuneration	125-130				120-125			
Median Total Remuneration	26,214				25,650			
Ratio	4.9				4.8			

Median total remuneration is the remuneration of the employee that falls in the middle of SQA pay bands (excluding the highest paid employee). This is expressed as a ratio in comparison to the highest paid Director.

The total emolument of all directors, non-executive directors and the chair were £791,000 (2014:£764,000)

* Eric Martinez left SQA on 31.10.14

** Jean Blair was promoted to Director of Operations on 29.9.14

There were no bonuses paid in 2014–15.

Benefits in kind are:

¹ Board members receive reimbursement of the actual expenses they incur in travelling to SQA offices to attend Board of Management and other meetings, and to undertake Non-Executive Director responsibilities. Only actual travel costs incurred are reimbursed, however this is disclosed above as benefits in kind in accordance with the treatment required by HM Revenue and Customs.

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

	Real increase in pension	Total accrued pension at 31 March 2015	Cash equivalent transfer value at 31 March 2014	Cash equivalent transfer value at 31 March 2015	Real increase in cash equivalent transfer value
	£	£'000	£'000	£'000	£'000
Chief Executive					
Dr Janet Brown	0-2,500	15-20	559	618	59
Directors					
Jean Blair	0-2,500	0-5	261	328	67
Maidie Cahill	0-2,500	15-20	405	463	58
Stuart Davidson	0-2,500	0-5	2	21	19
John McMorris	0-2,500	5-10	99	119	20
Dr Gill Stewart	0-2,500	5-10	539	590	51
	Real increase in pension	Total accrued pension at 31 March 2014	Cash equivalent transfer value at 31 March 2013	Cash equivalent transfer value at 31 March 2014	Real increase in cash equivalent transfer value
	£	£'000	£'000	£'000	£'000
Chief Executive					
Dr Janet Brown	0-2,500	10-15	509	559	42
Directors					
Maidie Cahill	0-2,500	15-20	371	405	28
Stuart Davidson	0-2,500	0-5	-	2	2
John McMorris	0-2,500	0-5	82	99	16
Dr Gill Stewart	0-2,500	5-10	496	539	35

The Chief Executive and all of the Directors, with the exception of Linda Ellison and Eric Martinez, are ordinary members of the Strathclyde Local Government Pension Scheme.

Dr Janet Brown
Accountable Officer and Chief Executive
Scottish Qualifications Authority
19 August 2015

4: Statement of Accountable Officer's responsibilities

Under Section 16 of the Education (Scotland) Act 1966, the Scottish Ministers have directed SQA to prepare for each financial year a statement of accounts in the form and on the basis set out in the Accounts Direction. The accounts are prepared on an accruals basis, and must give a true and fair view of the state of affairs of SQA and of its income and expenditure and cash flows for the financial year.

In preparing the accounts, the Accountable Officer is required to comply with the requirements of the *Government Financial Reporting Manual* and in particular 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 as set out in the *Government Financial Reporting Manual* have been followed, and disclose and explain any material departures in the accounts
- ◆ prepare the accounts on a going-concern basis

The Scottish Ministers have appointed the Chief Executive as Accountable Officer of SQA. The responsibilities of an Accountable Officer, including responsibility for the propriety and regularity of the public finances for which the Accountable Officer is answerable, for keeping proper records and for safeguarding the SQA's assets, are set out in the *Scottish Public Finance Manual* published by the Scottish Ministers.

5: 2014–15 Governance statement

In this section, SQA's Chief Executive sets out her approach to, and responsibility for, risk management, internal control and corporate governance. It aims to give assurance that SQA's resources are appropriately managed and controlled, and provides an opportunity to highlight action being taken to improve SQA's internal control system.

Scope of responsibility

As Accountable Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of SQA'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.

The *Scottish Public Finance Manual* is issued by Scottish Ministers to provide guidance to the Scottish Government and other relevant bodies on the proper handling and reporting of public funds. It sets out the relevant statutory, parliamentary and administrative requirements, emphasises the need for economy, efficiency and effectiveness, and promotes good practice and high standards of propriety.

Purpose of the 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 process within the organisation accords with guidance from Scottish Ministers provided by the Scottish Public Finance Manual and has been in place for the year ended 31 March 2015 and up to the date of approval of the Annual Report and Accounts.

Governance and management structures

SQA's Corporate Office continues to be responsible for ensuring that appropriate governance and management structures are in place as below to ensure the effectiveness of operations.

Sponsor department

As Accountable Officer, I and members of the Executive Management Team meet regularly with Ministers and/or colleagues at the Scottish Government, to provide an update on the organisation's progress. These meetings include discussion of policy development,

performance, risks and financial position. A representative of our sponsor department attends meetings of the Board of Management as an observer and copies of Board and Committee papers are forwarded to our sponsor department.

Board of Management

The Board has collective responsibility for ensuring that SQA's statutory functions and the Scottish Government's policies and priorities are being fulfilled, and that the use of resources is appropriate and effective. The Board sets the strategic direction for the organisation through a robust process of review and approval of the Corporate Plan which is submitted to Scottish Ministers.

The Board is supported by a group of committees with specific remits who work together to deliver the objectives and policies of SQA: the SQA Accreditation Committee, the SQA Advisory Council, the SQA Qualifications Committee, the SQA International and Commercial Committee, the SQA Audit Committee and the SQA Remuneration Committee. In line with statute, the SQA Accreditation Committee and the SQA Advisory Council are directly responsible to Scottish Ministers. The Board receives verbal updates on the considerations and decisions reached at the meetings of these committees, along with copies of the minutes.

The Chairman of SQA's Board of Management undertakes annual appraisals with individual members of the Board. As part of the performance process, the Chairman and Board members also discuss and evaluate the performance of the Board and its committees in fulfilling their statutory functions. The Audit Committee provides the Board with an independent and objective review of corporate performance, risk management, and the effectiveness of the internal control system. In particular the Audit Committee discussed SQA's Corporate Risk Register quarterly. The Board discusses risk as part of its strategic focus on an annual basis and reviews the Corporate Risk Register at every meeting.

Internal audit

Following an assessment of internal audit service requirements and discussions with senior management, a three-year strategic Process Improvement Plan for 2014–15 to 2016–17 was approved by our Audit Committee in May 2014. The three-year plan is subject to ongoing and annual review to ensure that it reflects changes in business requirements and takes account of any changes in SQA's risk profile. The specific reviews for 2014–15 were also approved by the Audit Committee in May 2014. The internal auditors continue to provide a clear and objective view of the effectiveness and efficiency of our business processes, and to monitor progress with the implementation of agreed actions to address areas for improvement. SQA is committed to continuous improvement and to the timely implementation of agreed audit actions.

In addition to the outsourced audit activity, SQA operates an additional in-house audit programme, composed of trained staff. The in-house volunteers conduct audits of key processes to support our continuing partial compliance with ISO 9001 and ISO 27001. Reports on this audit activity are submitted to the Audit Committee.

Internal controls

Corporate Services and Finance Directorates support Directors in their responsibility for ensuring that appropriate internal controls are applied within their Directorates. Key controls include:

- ◆ a robust corporate planning and performance framework to ensure the economical and effective use of resources
- ◆ operation of an effective risk management framework
- ◆ compliance with applicable policies, procedures, laws and regulations
- ◆ safeguards against losses, including those arising from fraud, irregularity or corruption
- ◆ mechanisms to ensure the integrity and reliability of information and data

Planning and performance framework

The SQA Corporate Plan is developed by the SQA Board and the Executive Management Team, in line with ministerial guidance. It has been developed to align with the Scottish Government's National Outcomes.

The organisation's business areas have prepared detailed operational plans, including financial plans, which underpin the published Corporate Plan. Directorate plans are in place to more clearly articulate the link from Corporate Plan to operational plan level.

Progress against Corporate Plan objectives is subject to review by the Audit Committee through Quarterly Performance Reports. The Audit Committee reviews progress against the strategic goals identified within the Corporate Plan and reports any matters of interest to the Board of Management for their consideration. The Quarterly Performance Review process was revised during 2014–15 to further refine SQA's key corporate performance indicators and improve alignment with SQA's strategic goals.

Portfolio management

SQA continues to review projects based on the overall business priorities. This is achieved by having a single approval process and governance framework. Resource and budget management are subsequently allocated based on this approach. This ensures that resources are focused on the correct business projects. The governance for the portfolio of projects rests with the Executive Management Team. This is also reported to Audit Committee and Board as part of the Quarterly Reporting Pack.

Risk management framework

All bodies to which the Scottish Public Finance Manual (SPFM) is applicable must operate a risk management strategy in accordance with relevant guidance issued by Scottish Ministers. The general principles for a successful risk management strategy are set out in the SPFM. SQA has a Board-approved risk management strategy and framework which is subject to continued review by the Board, Audit Committee and our internal auditors. The framework is

based on the Office of Government Commerce's Management of Risk (MoR) approach, which is regarded as best practice for the UK public sector.

Risks are identified, reported on and monitored according to this framework. Each quarter, the Management Team, Executive Management Team and Audit Committee review the register of key strategic risks and mitigating action. Within SQA business areas, projects and programmes there are operational risk registers. These risks are reviewed regularly by local managers and centrally to determine if any require to be escalated to the Executive Management Team for inclusion in the Corporate Risk Register, which is reviewed by the Audit Committee and escalated to the Board, if appropriate. This review is informed by thresholds to identify risks where the rating suggests that the risk would benefit from escalation for discussion at a higher tier of management.

In the first quarter of each year, SQA's Audit Committee undertakes a Strategic Risk Workshop to consider both existing and new risks that the organisation could face in the future. Any additional factors or risks are then incorporated into the Corporate Risk Register. During 2014–15 the SQA Corporate Risk Register continued to reflect the principal areas of risk for the organisation to ensure that we develop a sustainable funding model for the organisation, and the criticality of SQA's role in working with partners to ensure successful delivery of the overall Curriculum for Excellence model.

As part of its wider risk management framework, SQA has continued to develop its arrangements for the management of business continuity. SQA has a full Business Continuity Management System validation programme that includes regular maintenance of plans, exercises and reviews.

Work continues with partner and stakeholder organisations to identify shared risks and solutions, and to ensure best value for resources in relation to business continuity.

Compliance with policies, procedures, laws and regulations

SQA has in place structures that provide assurance that controls are in place and that ongoing review takes place. In particular, a comprehensive policy register is in place. Policies are assigned to policy holders and are reviewed and updated regularly.

The Executive Team seeks legal advice where appropriate to support the achievement of SQA's objectives in a manner compliant with legal requirements and the effective management of legal risk.

SQA has a dedicated Procurement Team, which advises SQA on procurement contract arrangements and provides guidance in terms of compliance with emerging changes to procurement rules from the European Union and Scottish Government. This provides a controlled and streamlined environment to support both compliance with relevant legislation and SQA's financial regulations.

Safeguards against losses

SQA has a system of financial controls in place to promote the effective use of financial resources and to safeguard against loss. This includes a robust budgeting and forecasting process that is closely aligned to the corporate planning process, and supported by monthly management review of actual results. Regular reports on financial outturn are also provided to the sponsor department.

Controls are in place to ensure that financial transactions are authorised in line with the Scheme of Delegation. Duties for Finance staff are segregated, where possible, to ensure effective financial controls. Where segregation is not possible due to the size of the Finance team, further controls are put in place to provide additional scrutiny.

An anti-fraud policy and fraud response plan are in place, ensuring that all SQA employees understand their responsibilities in this area and that prompt action is taken in the event that fraudulent activity is suspected. During 2014–15 there were no reported incidents of fraud.

Integrity and reliability of information and data

SQA engages with the Scottish Government Data Handling Team, to report risks relating to corporate data, in accordance with guidelines. As required by ISO 27001:2005, SQA has a reporting structure for information security incidents. During 2014–15, there were no reported personal data incidents.

SQA has an Information Security Policy in place. The purpose of this policy is to ensure the correct measures are in place to protect and secure all of SQA's information. This policy is circulated to staff using meta-compliance software to ensure that all staff read and understand the requirements of this policy. In addition, during 2013–14, SQA rolled out Protecting Information training to all staff to ensure that they understood their responsibilities for handling information and keeping it safe.

Data sharing agreements are put in place where there is a need to share data with other organisations.

Efficiency, effectiveness and economy

SQA is committed to ensuring that arrangements are in place that will lead to an economical, efficient and effective use of the organisation's resources. The efficiency agenda forms part of SQA's annual planning and budgeting process, and efficiency savings that are measurable and sustainable are identified, budgeted and monitored throughout the financial year. By continuing to embed a culture of efficiency, continuous improvement and best value across the organisation, SQA has planned to make savings that continue to support the Scottish Government's efficiency agenda in this financial year. No reductions in outputs or quality of service are expected as a result of this.

Review of effectiveness

As Accountable Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review is informed by:

- ◆ The senior management within the organisation, who have responsibility for the development and maintenance of the internal control framework.
- ◆ The work of the internal auditors, who submit regular reports to the SQA's Audit Committee which include an independent and objective opinion on the adequacy and effectiveness of the organisation's systems of internal control together with recommendations for improvement. Specifically, during 2014–15, I have considered the reviews of Income and Receivables, Treasury and Cash Management, Risk Management, Data Sharing, Contract Management, Network Management and follow-up reviews to assess the extent to which management has implemented agreed audit actions.
- ◆ Comments made by the external auditors in their management letters and other reports.

I have been advised in my review of the effectiveness of the system of internal control by the Board and the Audit Committee.

I have concluded that the internal control system is operating effectively and that appropriate action plans are in place to address any weaknesses identified and to ensure the continuous improvement of the system.

Dr Janet Brown
Accountable Officer and Chief Executive
Scottish Qualifications Authority
19 August 2015

6: Independent auditor's report

Independent auditor's report to the members of Scottish Qualifications Authority, the Auditor General for Scotland and the Scottish Parliament

We have audited the financial statements of Scottish Qualifications Authority for the year ended 31 March 2015 under the applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2014/15 Government Financial Reporting Manual (the 2014/15 FReM). The financial statements comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2014/15 Government Financial Reporting Manual (the 2014/15 FReM).

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 for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of Accountable Officer and auditor

As explained more fully in the Statement of the Accountable Officer's Responsibilities the Accountable Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. We are also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountable Officer; and the overall presentation of the financial statements. It also involves obtaining evidence about the regularity of expenditure and income. In addition, we read all the financial and non-financial information in the annual report and accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements, irregularities, or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- ◆ give a true and fair view in accordance with the applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2014/15 Government Financial Reporting Manual (the 2014/15 FReM) and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2015 and of its net operating cost for the year then ended;
- ◆ have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2014/15 FReM; and
- ◆ have been prepared in accordance with the requirements of the Education (Scotland) Act 1996 and directions made thereunder by the Scottish Ministers.

Opinion on regularity

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Opinion on other prescribed matters

In our opinion the part of the Remuneration Report to be audited has been properly prepared in accordance with the Education (Scotland) Act 1996 and directions made thereunder by the Scottish Ministers; and the information given in the Strategic Report, Directors' Report and the part of the Remuneration Report that is not audited for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We are required to report to you if, in our opinion:

- ◆ adequate accounting records have not been kept; or
- ◆ the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- ◆ we have not received all the information and explanations we require for our audit; or
- ◆ the Governance Statement does not comply with guidance from the Scottish Ministers.

We have nothing to report in respect of these matters.

Andrew Shaw, (for and on behalf of KPMG LLP)
Chartered Accountants
191 West George Street
Glasgow
G2 2LJ

7: Accounts 2014–15

Statement of comprehensive net expenditure

for the year ended 31 March 2015

	Note	2014-15 £'000	2013-14 £'000
Expenditure			
Staff costs	3	34,205	30,514
Depreciation and amortisation charges	8(ii)	2,149	2,473
Other expenditures	4	37,986	38,578
		<hr/> 74,340	<hr/> 71,565
Income			
Entry charges	5	41,577	45,574
Other income	6	8,991	7,341
		<hr/> 50,568	<hr/> 52,915
Net expenditure		(23,772)	(18,650)
Interest payable	7	(721)	(554)
Net expenditure after interest		<hr/> (24,493)	<hr/> (19,204)

The notes on pages 34 to 59 form part of these accounts.

Statement of financial position

as at 31 March 2015

	Note	31 March 2015 £'000	31 March 2014 £'000
Non-current assets			
Property, plant and equipment	8(i)	4,061	5,024
Intangible assets	9	890	1,902
Financial assets	11	373	380
Total non-current assets		5,324	7,306
Current assets			
Trade and other receivables	12	23,846	21,770
Financial assets	11	-	-
Cash and cash equivalents	13	2,856	2,824
Total current assets		26,702	24,594
Total assets		32,026	31,900
Current liabilities			
Trade and other payables	14	(10,330)	(9,423)
Total current liabilities		(10,330)	(9,423)
Non-current assets plus net current assets		21,696	22,477
Non-current liabilities			
Provisions for liabilities and charges	15	(842)	(817)
Defined benefit liability	3	(28,331)	(15,487)
Total non-current liabilities		(29,173)	(16,304)
Assets less liabilities		(7,477)	6,173
Taxpayers' equity			
Revaluation reserves		72	79
General reserve		(7,549)	6,094
Total taxpayers' equity		(7,477)	6,173

The accounts were approved by the Board of Management on 19 August 2015 and were signed on its behalf by:

Dr Janet Brown
Accountable Officer and Chief Executive
Scottish Qualifications Authority

The notes on pages 34 to 59 form part of these accounts.

Statement of cash flows

for the year ended 31 March 2015

	Note	2014-15 £'000	2013-14 £'000
Cash flows from operating activities			
Total comprehensive expenditure		(24,493)	(19,204)
Adjustments for non-cash items			
Depreciation and amortisation		2,149	2,473
Loss on disposal of property, plant and equipment		279	-
Notional Optima rent		1,538	1,538
Movements in working capital			
Increase in trade and other receivables		(2,076)	(6,658)
Increase in trade and other payables		907	424
Proceeds from disposal of asset held for sale		-	-
Movements in provisions and long-term liabilities			
Increase of provisions		41	25
Increase in defined benefit liability cost		2,283	1,279
Net cash outflow from operating activities		<u>(19,372)</u>	<u>(20,123)</u>
Cash flows from investing activities			
Purchase of property, plant and equipment		(252)	(434)
Purchase of intangible assets		(201)	(273)
Proceeds of disposal of property, plant and equipment		-	-
Receipts of funds transfer		-	1
Net cash outflow from investing activities		<u>(453)</u>	<u>(706)</u>
Cash flows from financing activities			
Additional funding from Scottish Government	16	6,695	9,249
Government funding	16	13,162	13,130
Capital funding	16	-	16
Net financing		<u>19,857</u>	<u>22,395</u>
Net increase in cash and cash equivalents in the period		32	1,566
Cash and cash equivalents at the beginning of the period		2,824	1,258
Cash and cash equivalents at the end of the period		<u>2,856</u>	<u>2,824</u>

The notes on pages 34 to 59 form part of these accounts.

Statement of changes in taxpayers' equity

for the year ended 31 March 2015

	Note	Revaluation Reserves £'000	General Reserve £'000	Total Reserves £'000
Balance at 31 March 2013		96	4,187	4,283
Changes in taxpayers' equity for 2013-14				
Net (loss) on revaluation of investments	11(i)	(17)	-	(17)
Actuarial (loss)	3	-	(2,838)	(2,838)
Unfunded benefits paid	15(i)	-	16	16
Net expenditure after interest		-	(19,204)	(19,204)
Total recognised income and expense for 2013-14		(17)	(22,026)	(22,043)
Scottish Government funding	16	-	23,933	23,933
Balance at 31 March 2014		79	6,094	6,173
Changes in taxpayers' equity for 2014-15				
Net (loss) on revaluation of investments	11(i)	(7)	-	(7)
Actuarial (loss)	3	-	(10,561)	(10,561)
Unfunded benefits paid	15(i)	-	16	16
Net expenditure after interest		-	(24,493)	(24,493)
Total recognised income and expense for 2014-15		(7)	(35,038)	(35,045)
Scottish Government funding	16	-	21,395	21,395
Balance at 31 March 2015		72	(7,549)	(7,477)

The notes on pages 34 to 59 form part of these accounts.

Notes to the accounts

1 Statement of accounting policies

These accounts have been prepared in accordance with the 2014–15 Government Financial Reporting Manual (FReM) issued by HM Treasury. The accounting policies set out in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be the most appropriate to the particular circumstances of SQA for the purpose of giving a true and fair view has been selected. The particular policies adopted by SQA for 2014–15 are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

1.1 Accounting convention

These accounts have been prepared under the historical cost convention, modified to account for the revaluation of non-current assets and, where material, current asset investments to fair value as determined by the relevant accounting standard.

1.2 Going concern

The Board of SQA has no reason to believe that the department's future sponsorship and future ministerial approval will not be forthcoming or will only provide a reduced support to SQA. Given the above it has accordingly been considered appropriate to adopt a going-concern basis for the preparation of these financial statements.

The accounts have been prepared incorporating the requirements of the accounting standard IAS 19 and include an actuarial valuation of the pension scheme liability as explained in note 3 to the accounts. This reflects the inclusion of liabilities falling due in future years in respect of pension liabilities arising from the application of IAS 19 to SQA. Hymans Robertson, the actuary to the pension scheme who has collated the information from the various Local Government Pension Scheme (LGPS) funds in which SQA participates, has calculated the liability arising under IAS 19. The actuary to each of the LGPS funds in which SQA participates conducts a triennial review of the funding basis of the pension scheme, along with yearly reviews when appropriate. The last formal valuation of the funds was conducted as at 31 March 2014 and the next formal valuation is due at 31 March 2017. In preparing the projected pension expense for the year to 31 March 2015, the actuary has assumed employees continue to earn new benefits in line with the regulations as they currently stand and that the pensionable payroll remains stable with new entrants replacing leavers.

To the extent that the pension deficit is not met from SQA's sources of income it may only be met by future grant-in-aid from SQA's sponsoring department, the Scottish Government Learning Directorate. This is because, under the normal conventions applying to parliamentary control over income and expenditure, such grants may not be paid in advance of need.

1.3 Property, plant and equipment

Leasehold building improvements (LBIs) represent the fit-out costs for the Optima Building, Glasgow and Lowden, Dalkeith, of which SQA is tenant. Depreciated historic cost has been used as a proxy for the current value as LBIs comprise lots of individual items of relatively

low value in comparison to the overall total. The depreciation charge is thought to provide a realistic reflection of consumption.

Depreciated historic cost has also been used as a proxy for the current value of information technology, motor vehicles, plant and machinery, and furniture and fittings. All of the assets in these categories have:

- 1 low values or short useful economic lives which realistically reflect the life of the asset (or both); and
- 2 a depreciation charge which provides a realistic reflection of consumption.

Subsequent costs are included in an asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future benefits associated with the item will flow to SQA and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the Statement of comprehensive net expenditure during the financial year in which they are incurred.

Property, plant and equipment are subject to annual impairment reviews.

The threshold for capitalising assets is £3,000.

1.4 Depreciation

Depreciation is provided on property, plant and equipment on a straight-line basis at rates sufficient to write down their cost, less estimated residual value, over their estimated useful lives. The depreciation periods for the principal categories of assets are:

Leasehold building improvements	Over the term of the lease
Information technology	3 years
Motor vehicles	4 years
Plant and machinery	4–7 years
Furniture and fittings	4–7 years

Assets in the course of construction are not depreciated until the asset is brought into use.

1.5 Intangible assets

Intangible assets are valued initially at cost and subsequently at fair value using the revaluation model.

Where an active market does not exist, income-generating assets are valued at the lower of depreciated replacement cost and value in use. Non-income-generating assets are carried at depreciated replacement cost. These valuation methods are considered to be a proxy for fair value.

Future economic benefit has been used as the criteria in assessing whether an intangible asset meets the definition and recognition criteria of IAS 38 'Intangible Assets' where assets do not generate income. IAS 38 defines future economic benefit as revenue from the sale of products or services, cost savings or other benefits resulting from the use of the asset by the entity.

Intangible assets are amortised on a straight-line basis at rates sufficient to write down their cost, less estimated residual value, over their estimated useful lives. The amortisation periods for categories of intangible assets are:

Software	3 years
Web costs	3 years
Licences	3 years unless the licence term specifies otherwise

1.6 Investments

Investments in stocks and shares are stated at market value. Revaluation gains are taken to the revaluation reserve in the Statement of financial position. Revaluation losses are taken to the revaluation reserve to the extent to which they reverse previously recognised gains and thereafter to the Statement of comprehensive net expenditure.

1.7 Income recognition

Income from entry charges is derived from three types of core award, namely National Qualifications, Higher National Qualifications and Vocational Qualifications.

For Nationals 1–5 and new Higher qualifications, income is recognised based on the level of service provision that has been delivered by 31 March in the academic year.

For existing Access, Intermediate, Higher and Advanced Higher qualifications, the proportion of income recognised is based on the level of internal verification that has taken place by 31 March in the academic year.

Income from HN and VQ entries is spread over the duration it takes the candidate to complete the Group Award.

Income from Units that are not attached to a Course or Group Award is recognised in the month of entry.

1.8 Foreign exchange

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 Statement of financial position date. Any gain or loss arising on the restatement of such balances is taken to the Statement of comprehensive net expenditure.

1.9 Leases

Rentals payable in respect of operating leases are charged to the Statement of comprehensive net expenditure on a straight-line basis over the term of the lease. There are no assets held under finance leases.

1.10 Financial instruments

Financial instruments are recognised in the Statement of financial position when an obligation is identified and released as that obligation is fulfilled. Cash, debtors and creditors are held at cost. Measurement of investments is discussed above (see note 1.6).

As SQA's income is derived mainly from public sector organisations, it is not subject to any significant liquidity risk exposure. Any cash held on deposit is with highly rated banks and there is no significant interest rate risk. SQA operates two bank accounts denominated in foreign currencies (Euro and US Dollar). Both of these are reconciled on a monthly basis, whereupon any gains or losses on their translation to GBP are taken to the Statement of comprehensive net expenditure. Due to the low value of balances held in these accounts there is no significant currency risk to SQA.

1.11 Grants receivable

Government grants of both a revenue and capital nature are credited to the general reserve in the year to which they relate.

1.12 Provisions

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

Other provisions for liabilities and charges are recognised in accordance with the criteria and measurement bases of IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'.

1.13 Taxation

SQA is eligible under s505 of the Income and Corporation Taxes Act 1988 to seek from HMRC exemption from taxes on income arising from the pursuit of its charitable objectives.

SQA suffers withholding tax on income earned from overseas activities.

1.14 VAT

Income is accounted for net of value added tax. Expenditure is shown net of value added tax where the tax is recoverable.

1.15 Pensions

All eligible employees are entitled to membership of the Local Government Pension Scheme (LGPS). Existing employees who are already members of the Scottish Government Teachers' Superannuation Scheme (STSS) are entitled to maintain their membership of that scheme. Employer's contributions to the STSS are accounted for as they fall due. Employer's contributions to the LGPS are accounted for under the requirements of IAS 19 'Employee Benefits' (see note 3).

1.16 Changes in estimation techniques

There have been no material changes in estimation techniques.

1.17 Impending application of newly issued accounting standards not yet effective

SQA provides disclosure on the following standards that are impending but have not yet been applied.

IFRS 13 Fair value measurement which has been issued to provide consistent guidance on fair value measurement. It will be included in the 2015/16 FReM without adaptation. However, adaptations to other standards limit the circumstances in which a valuation is required under IFRS 13.

IFRS 15 Revenue from Contracts with Customers – specifies how and when revenue is recognised, using a principles based five-step model. This will be effective in 2017 if adopted by the European Union and may have an impact on the timing of recognition of SQA's revenue.

IFRS 9 Financial Instruments – simplifies the classification, recognition and measurement requirements for financial assets, financial liabilities and some contracts to buy or sell non-financial items. This will be effective in 2018/19, if adopted by the European Union.

The Directors do not expect that the adoption of these standards will have a material impact on the financial statements of SQA in future periods.

2 Analysis of net expenditure by segment

SQA's operations are currently organised into the following operating divisions:

Awarding and related activities

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

Accreditation activities

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

Scottish Survey of Literacy and Numeracy

The Scottish Survey of Literacy and Numeracy (SSLN) is funded by the Scottish Government. 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.

These divisions are the basis on which SQA monitors its operations and upon which decisions are made by the Board.

	Awarding and related activities £'000	Accreditation £'000	SSLN £'000	Total £'000
2014-15				
Staff costs	32,784	959	462	34,205
Depreciation	2,149	-	-	2,149
Other expenditures	37,585	104	297	37,986
Total expenditure	72,518	1,063	759	74,340
Entry charges	41,577	-	-	41,577
EU funding	-	-	-	-
Other income	8,991	-	-	8,991
Scottish Government funding	19,558	1,063	774	21,395
	70,126	1,063	774	71,963
Funding credited to reserves	(19,558)	(1,063)	(774)	(21,395)
Total income	50,568	-	-	50,568
Net expenditure	(21,950)	(1,063)	(759)	(23,772)
2013-14				
Staff costs	29,129	917	468	30,514
Depreciation	2,473	-	-	2,473
Other expenditures	38,318	113	147	38,578
Total expenditure	69,920	1,030	615	71,565
Entry charges	45,574	-	-	45,574
EU funding	-	-	-	-
Other income	7,341	-	-	7,341
Scottish Government funding	22,288	1,030	615	23,933
	75,203	1,030	615	76,848
Funding credited to reserves	(22,288)	(1,030)	(615)	(23,933)
Total income	52,915	-	-	52,915
Net expenditure	(17,005)	(1,030)	(615)	(18,650)

SQA's awarding and related activities are carried out across the UK and internationally. The chart of accounts and customer hierarchy does not enable the reporting of operating segments by SQA customers' geographical location at this time.

3 Staff numbers and related costs

Staff costs comprise:

	Permanently employed staff £'000	Others £'000	2014-15 Total £'000	2013-14 Total £'000
Wages and salaries	23,932	2,900	26,832	24,259
Social security costs	1,739	-	1,739	1,593
Other pension costs	5,670	-	5,670	4,546
Severance and compensation	-	-	-	142
Sub-total	31,341	2,900	34,241	30,540
Less recoveries in respect of outward secondments	(36)	-	(36)	(26)
Total net costs	31,305	2,900	34,205	30,514

Average number of persons employed

The average number of whole-time equivalent persons employed during the year was a follows:

	Permanent Staff	Others	2014-15 Total	2013-14 Total
Awarding and related activities	604	260	864	811
Accreditation	23	-	23	22
Scottish Survey of Literacy and Numeracy	5	2	7	9
Total	632	262	894	842

The Local Government Pension Scheme (LGPS) is a group defined benefit scheme. Responsibility for the management of the fund rests with the Strathclyde Pension Fund administered by Glasgow City Council. The fund is administered in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) Regulations 2008 and the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 and the Local Government Pension Scheme (Transitional Provisions) (Scotland) Regulations 2008.

The Scottish Teachers Superannuation Scheme (STSS) is an unfunded multi-employer defined benefit scheme covering teachers and related occupations and is the responsibility of the Scottish Public Pensions Agency. 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. Contributions during the year totalled £4,070,000 (2014: £3,781,000), consisting of £3,978,000 (2014: £3,679,000) to the LGPS Scheme and £92,000 (2014: £102,000) to the STSS Scheme. Included within other payables (note 14) are outstanding contributions of £453,000 (2014: £431,000) due to the LGPS Scheme and £nil (2014: £14,000) due to the STSS Scheme at 31 March 2015. In 2015–16 total contributions to LGPS are expected to be £6,478,000.

Actuarial valuations for both schemes are prepared, with the last LGPS valuation to 2014 and the last STSS valuation being to 31 March 2009. Details of these valuations can be obtained from published reports.

The STSS is an unfunded multi-employer defined benefit scheme. Accounting treatment under International Accounting Standard 19 (IAS 19) allows SQA to account for the pension plan as a defined contribution scheme. The last audited full actuarial and funding valuation was carried out at 31 March 2009. The results of this valuation were rolled forward to give an overall scheme liability of £24.0 billion at 31 March 2013. SQA is unable to identify separately its share of the scheme's underlying assets and liabilities. However, as the scheme is unfunded there can be no surplus or shortfall. Pension contribution rates will be set by the scheme's actuary at a level to meet the cost of pensions as they accrue. SQA has no liability for other employers' obligations to the multi-employer scheme.

The SQA is notified by both responsible bodies of the employer's contribution rates for each scheme. The LGPS, following a separate modelling exercise, has frozen employers' contribution rates at the 2011–12 of 19.3% of pay until 31 March 2016. The STSS has set rates at 14.9% for 2012–13, 2013–14, 2014–15 and 2015–16.

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

The amounts recognised in the Statement of comprehensive net expenditure are as follows:

	2014-15 £'000	2013-14 £'000
Current service cost	5,559	4,415
Interest on obligation	4,940	4,568
Expected return on plan assets	(4,241)	(4,039)
	<hr/> 6,258	<hr/> 4,944

The net expense is recognised in the following line items in the Statement of comprehensive net expenditure:

Staff costs	5,559	4,415
Interest payable	699	529
	<hr/> 6,258	<hr/> 4,944

The amounts recognised in the Statement of financial position are as follows:

	2014-15 £'000	2013-14 £'000
Present value of funded obligations	(141,400)	(112,536)
Fair value of employer assets	113,366	97,328
Net (under) funding in funded plans	(28,034)	(15,208)
Present value of unfunded obligations	(297)	(279)
Net (liability)	(28,331)	(15,487)
Amounts in the Statement of financial position:		
Defined benefit liability	(28,331)	(15,487)
Net (liability)	(28,331)	(15,487)

	31 March 2015 £'000	31 March 2014 £'000
Movement in present value of defined benefit obligation		
Opening defined benefit obligation	112,815	99,644
Current service cost	5,559	4,415
Interest cost	4,940	4,568
Actuarial loss from change in demographic assumptions	4,145	-
Actuarial loss from change in financial assumptions	15,838	4,875
Other experience	(399)	(31)
Contributions by members	1,331	1,230
Benefits paid	(2,532)	(1,886)
Closing defined benefit obligation	141,697	112,815

Movement in fair value of plan assets

Opening fair value of plan assets	97,328	88,274
Expected return on plan assets	9,023	2,006
Interest income on plan assets	4,241	4,039
Contributions by employer	3,959	3,649
Contributions by members	1,331	1,230
Contributions in respect of unfunded benefits	16	16
Benefits paid	(2,532)	(1,886)
Closing fair value of plan assets	113,366	97,328

The major categories of the plan assets and their fair values were as follows:

	31 March 2015				31 March 2014			
	Quoted Prices in Active Markets £'000	Prices not quoted in Active Markets £'000	Total £'000	%	Quoted Prices in Active Markets £'000	Prices not quoted in Active Markets £'000	Total £'000	%
Equity Securities	41,560	85	41,645	37	35,484	75	35,559	37
Debt Securities	-	1	1	-	-	1	1	-
Private Equity	-	11,031	11,031	10	-	9,179	9,179	9
Real Estate	-	10,357	10,357	9	-	6,818	6,818	7
Investment funds and unit trusts	1,235	46,276	47,511	42	2,410	38,685	41,095	42
Derivatives	35	-	35	-	21	-	21	-
Cash and cash equivalents	-	2,786	2,786	2	-	4,655	4,655	5
Total	42,830	70,536	113,366	100	37,915	59,413	97,328	100

The amounts recognised in the Statement of changes in taxpayers' equity are as follows:

	2014-15 £'000	2013-14 £'000
Actuarial (loss) arising on the defined benefit obligation	(19,584)	(4,844)
Actuarial gain arising on the fair value of the plan assets	9,023	2,006
Actuarial (loss) recognised in the Statement of changes in taxpayers' equity	(10,561)	(2,838)

Principal actuarial assumptions, expressed as weighted averages, are as follows:

	%	%
Pension Increase Rate	2.4	2.8
Salary Increase Rate	4.3	5.1
Discount Rate	3.2	4.3

The assumptions relating to longevity underlying retirement benefit obligations at the Statement of financial position date are based on a bespoke set of VitaCurves that are specifically tailored to fit the membership profile of the Fund. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	22.1 years	23.6 years
Future pensioners	24.8 years	26.2 years

The sensitivities regarding the principal assumptions used to measure the scheme liabilities are set out below:

Change in assumptions at 31 March 2015:	Approximate % Increase to Employer	Approximate monetary amount
0.5% decrease in Real Discount Rate	12%	16,902
1 year increase in member life expectancy	3%	4,251
0.5% increase in the Salary Increase Rate	5%	6,847
0.5% increase in the Pension Increase Rate	7%	9,569

The discount rate is derived from a Corporate bond yield curve constructed from yields on high quality bonds. The discount rate is then set based on SQA's weighted average duration of 20.5 years.

The salary increase assumption is 1% p.a. until 31 March 2015, reverting to RPI plus 1.0% p.a. thereafter, plus an allowance for promotional increases. This takes into account the Government's public sector pay restraints (originally announced in June 2010 and extended as per the November 2011 announcement).

The pension increase assumption is in line with the Consumer Price Index (CPI). The CPI assumption is calculated as RPI less 0.9% p.a.

4 Other expenditures

	2014-15	2013-14
£'000	£'000	£'000
Appointee fees	11,374	13,149
Property expenses	5,124	4,952
Business development specialists' fees and expenses	4,005	3,147
IT costs	3,223	3,546
Appointee expenses and related costs	2,548	2,408
Staff travel	1,183	1,033
Staff training	418	300
Miscellaneous staff costs	324	336
Staff subsistence	291	240
Catering for internal and examination procedures meetings	43	43
Staff related costs	2,259	1,952
PR, marketing and publications	2,178	1,854
Appointee release compensation	2,020	1,830
Postage and telephone	1,712	1,818
Assessment stationery and certificates	1,582	1,592
Miscellaneous	859	664
Equipment and supplies	707	909
Question paper production and printing	388	748
Board and committee expenses	7	9
	<u>37,986</u>	<u>38,578</u>

Included within Property Expenses is a notional charge of £1,538,000 (2014: £1,538,000) for the annual rent of SQA's leasehold property at the Optima Building, Glasgow.

Included within Miscellaneous is £44,592 (2014: £44,155) relating to external audit fees and £46,807 (2014: £67,100) relating to internal audit fees.

Included within Business Development Specialists' Fees and Expenses is £24,000 (2014: £nil) relating to non-audit fees paid to KPMG.

	2014-15 £'000	2013-14 £'000
5 Entry charges		
National Qualifications:		
National Courses and Units	32,424	27,572
Post-results Services	187	-
SCE Standard Grade	-	9,241
Late appeal charges	-	34
	<hr/>	<hr/>
	32,611	36,847
Higher National Qualifications	5,664	5,416
Scottish Vocational Qualifications	3,302	3,311
	<hr/>	<hr/>
	41,577	45,574

6 Other income

Commercial testing services	4,682	3,644
Consultancy, secondments and research	2,253	1,749
Streetworks Qualifications Register	932	990
Miscellaneous income	410	210
Customised award charges	318	311
Replacement certificate charges	233	221
Royalty income	108	128
Sale of publications	30	24
Commercial events	11	41
Other interest income	7	15
Income from investments for unfunded pensions	7	8
	<hr/>	<hr/>
	8,991	7,341

7 Interest payable

Finance cost of discounted SQA unfunded pensions provision	(22)	(25)
Pension provision cost	(699)	(529)
	<hr/>	<hr/>
	(721)	(554)

8 Property, plant and equipment

(i)

	Leasehold building improvements £'000	Information technology £'000	Motor vehicles £'000	Plant & machinery £'000	Furniture & fittings £'000	Assets under construction £'000	Total £'000
Cost or valuation							
At 1 April 2014	5,810	4,437	94	631	37	739	11,748
Additions	-	26	-	12	-	214	252
Reclassifications	-	-	-	-	-	(205)	(205)
Disposals	-	(748)	(12)	(138)	-	(279)	(1,177)
At 31 March 2015	5,810	3,715	82	505	37	469	10,618
Depreciation							
At 1 April 2014	2,116	4,019	72	495	22	-	6,724
Charged in year	388	223	6	105	9	-	731
Reclassifications	-	-	-	-	-	-	-
Disposals	-	(748)	(12)	(138)	-	-	(898)
At 31 March 2015	2,504	3,494	66	462	31	-	6,557
Net book value							
At 31 March 2015	3,306	221	16	43	6	469	4,061
At 31 March 2014	3,694	418	22	136	15	739	5,024
Asset financing:							
Owned	3,306	221	16	43	6	469	4,061
Finance lease	-	-	-	-	-	-	-
Net book value at 31 March 2015	3,306	221	16	43	6	469	4,061
Capital Additions Financing:							
Government grant	-	-	-	-	-	-	-
Core budget	-	26	-	12	-	214	252
	-	26	-	12	-	214	252

	Leasehold building improvements £'000	Information technology £'000	Motor vehicles £'000	Plant & machinery £'000	Furniture & fittings £'000	Assets under construction £'000	Total £'000
Cost or valuation							
At 1 April 2013	5,810	4,326	72	538	37	652	11,435
Additions	-	121	22	105	-	186	434
Reclassifications	-	-	-	-	-	(99)	(99)
Disposals	-	(10)	-	(12)	-	-	(22)
At 31 March 2014	5,810	4,437	94	631	37	739	11,748
Depreciation	1,728	3,692	58	379	13	-	5,870
At 1 April 2013	388	337	14	128	9	-	876
Charged in year	-	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-	-
Disposals	-	(10)	-	(12)	-	-	(22)
At 31 March 2014	2,116	4,019	72	495	22	-	6,724
Net book value							
At 31 March 2014	3,694	418	22	136	15	739	5,024
At 31 March 2013	4,082	634	14	159	24	652	5,565
Asset financing:							
Owned	3,694	418	22	136	15	739	5,024
Finance lease	-	-	-	-	-	-	-
Net book value at 31 March 2014	3,694	418	22	136	15	739	5,024
Capital Additions Financing:							
Government grant	-	-	-	-	-	16	16
Core budget	-	121	22	105	-	170	418
	-	121	22	105	-	186	434

(ii) Depreciation and amortisation charges

	Note	2014-15 £'000	2013-14 £'000
Depreciation charge for the year	8(i)	731	876
Amortisation charge for the year	9	1,418	1,597
Total charge for the year		2,149	2,473

9 Intangible assets

	Web costs £'000	Licences £'000	Software £'000	Total £'000
Cost or valuation				
At 1 April 2014	402	1,332	9,720	11,454
Additions	-	-	201	201
Reclassifications	-	-	205	205
Disposals	(199)	(29)	(2,337)	(2,565)
At 31 March 2015	203	1,303	7,789	9,295
Amortisation				
At 1 April 2014	396	1,303	7,853	9,552
Charged in year	6	13	1,399	1,418
Disposals	(199)	(29)	(2,337)	(2,565)
At 31 March 2015	203	1,287	6,915	8,405
Net book value				
At 31 March 2015	-	16	874	890
At 31 March 2014	6	29	1,867	1,902
Internally generated	-	-	-	-
Other	-	16	874	890
	-	16	874	890

All capital additions in the year were funded from core budget.

Cost or valuation				
At 1 April 2013	402	1,326	9,452	11,180
Additions	-	41	232	273
Reclassifications	-	-	99	99
Disposals	-	(35)	(63)	(98)
At 31 March 2014	402	1,332	9,720	11,454
Amortisation				
At 1 April 2013	323	1,311	6,419	8,053
Charged in year	73	27	1,497	1,597
Disposals	-	(35)	(63)	(98)
At 31 March 2014	396	1,303	7,853	9,552
Net book value				
At 31 March 2014	6	29	1,867	1,902
At 31 March 2013	79	15	3,033	3,127
Internally generated	-	-	-	-
Other	6	29	1,867	1,902
	6	29	1,867	1,902

10 Financial instruments

As the cash requirements of SQA are met through grant-in-aid provided by the Scottish Government, financial instruments play a more limited role in creating and managing risk than would apply to a non-public-sector body. The majority of financial instruments relate to contracts to buy non-financial items in line with SQA's expected purchase and usage requirements and SQA is therefore exposed to little credit, liquidity or market risk.

11 Financial assets

	Note	31 March 2015 £'000	31 March 2014 £'000
Non-current assets			
Investments for unfunded pensions	11(i)	373	380
Current assets			
Investments for unfunded pensions	11(i)	-	-
		373	380

(i) Investments for unfunded pensions

	British government securities £'000	Investment deposit account £'000	Total £'000
Market value at 1 April 2013	397	1	398
Additions	130	8	138
Disposals	(130)	(9)	(139)
Revaluation	(17)	-	(17)
Market value at 31 March 2014	380	-	380
Additions	-	7	7
Disposals	-	(7)	(7)
Revaluation	(7)	-	(7)
Market value at 31 March 2015	373	-	373
Market value of investments maturing:			
Within 1 year	-	-	-
Outwith 1 year	373	-	373
Market value at 31 March 2015	373	-	373

31 March 2015 £'000	31 March 2014 £'000
---------------------------	---------------------------

12 Trade and other receivables

Amounts falling due within one year:

Trade receivables	4,816	3,330
Other receivables	39	32
Prepayments and accrued income	18,991	18,408
	<hr/> 23,846	<hr/> 21,770

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

Other central government bodies	73	74
Local authorities	55	35
NHS trusts	-	2
	<hr/> 128	<hr/> 111

Included within trade receivables is a bad debt provision of £227,000 (31 March 2014: £303,000). During the year £73,000 of bad debt was written off (2014: £38,000).

Included within other receivables are loans to staff amounting to £33,000 (31 March 2014: £30,000).

13 Cash and cash equivalents

Balance at 1 April	2,824	1,258
Net change in cash and cash equivalent balances	32	1,566
Balance at 31 March	<hr/> 2,856	<hr/> 2,824

The following balances at 31 March were held at:

Government banking service	1,278	2,665
Commercial banks and cash in hand	1,578	159
	<hr/> 2,856	<hr/> 2,824

31 March	31 March
2015	2014
£'000	£'000

14 Trade and other payables

Amounts falling due within one year:

VAT	36	50
Other taxation and social security	603	607
Trade payables	362	118
Other payables	517	503
Accruals and deferred income	8,812	8,145
	<hr/>	<hr/>
	10,330	9,423

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

Other central government bodies	-	1
Local authorities	32	2
	<hr/>	<hr/>
	32	3

15 Provisions for liabilities and charges

SQA Unfunded Pensions	15(i)	432	427
China Tax Provision	15(ii)	-	390
Indirect Tax Provision	15(iii)	410	-
		<hr/>	<hr/>
		842	817

(i) SQA unfunded pensions

	£'000
Balance at 1 April 2013	418
Provisions not required written back	-
Provisions utilised in the year	(16)
Unwinding of discount	25
	<hr/>
Balance at 31 March 2014	427
Provisions not required written back	-
Provisions utilised in the year	(16)
Unwinding of discount	21
	<hr/>
Balance at 31 March 2015	432

The provision for SQA unfunded pensions represent 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.

(ii) China Tax Provision

During 2012–13 the Chinese tax authority conducted a review of the income that SQA earns in China and how this is classified in accordance with the Double Taxation Treaty that exists between the UK and China. The review initially concluded that SQA's income had been wrongly classified in the past and as a result additional tax, including tax due in previous years is now due. During 2014–15 SQA sought professional advice which concluded that the practical risk is not high for the Chinese tax authority to request an additional tax payment due to the lapse of the 3-year statute of limitation period. The provision is no longer required.

(iii) Indirect Tax Provision

Services of education, by providing specialist teaching staff, are supplied from Local Authorities to SQA. Local Authorities invoice SQA for these services.

During 2014–15, SQA were made aware that HMRC has ruled that the services are standard rated supplies of staff. The Scottish Government are in the process of challenging HMRC's ruling as they are of the view that the supplies are supplies of education/examination services and are therefore exempt supplies under Group 6, Schedule 9 of the VAT Act 1994. A provision has been made to cover the potential cost of VAT not previously charged by Local Authorities to SQA for the supply of teaching staff seconded to SQA.

16 Government funding

	2014-15 £'000	2013-14 £'000
Scottish Government Scottish Survey of Literacy and Numeracy	774	615
Scottish Government accreditation	1,063	1,030
Scottish Government development	11,325	11,485
	<hr/>	<hr/>
	13,162	13,130
Grant-in-aid	6,695	9,249
Capital funding	-	16
Notional funding	1,538	1,538
	<hr/>	<hr/>
	21,395	23,933

17 Commitments under leases

Operating leases

The Scottish Government entered into a 15 year lease in September 2005 with the owners of the Optima Building in Glasgow and has sub-leased part of that accommodation to SQA. The Scottish Government pays the Optima rent and landlord's management charges for the Optima Building without recourse to SQA. The treatment of this arrangement shows the notional cost of the Optima rent included in property expenses (note 4) and the notional refund included in government funding (note 16).

Total future minimum lease payments under this operating lease are given in the table below for each of the following periods:

	31 March 2015 £'000	31 March 2014 £'000
Obligations under operating lease for the following periods comprise:		
Land and buildings:		
Not later than one year	-	-
Later than one year but not later than five years	-	-
Later than five years	5,742	6,891
	<hr/> 5,742	<hr/> 6,891

The Scottish Government entered into a 15 year lease in October 2011 with the owners of Lowden in Dalkeith. SQA are tenants of the property, however, as there is no sub-lease in place, SQA pays the Lowden rent and service charges and is refunded in full by the Scottish Government. The treatment of this arrangement shows the cost of the Lowden rent included in property expenses (note 4) and the refund included in government funding (note 16).

Total future minimum lease payments under this operating lease are given in the table below for each of the following periods:

Obligations under operating lease for the following periods comprise:		
Land and buildings:		
Not later than one year	-	-
Later than one year but not later than five years	-	-
Later than five years	11,376	12,432
	<hr/> 11,376	<hr/> 12,432

In addition SQA signed a 5 year extension from 1 April 2012 with the Scottish Mining Trust for the lease of property at Newtongrange. Obligations under this lease amount to £119,000, all later than one year but no later than five.

There are no other operating leases.

Finance leases

There are no finance leases in operation.

18 Contingent liabilities

There were no material contingent liabilities at 31 March 2015 (2014: £nil).

19 Events post-date of Statement of financial position

There are no material events post-date of Statement of financial position that require to be adjusted in the accounts or to be disclosed.

20 Related-party transactions

SQA is a non-departmental public body (NDPB) sponsored by the Scottish Government Learning Directorate.

The Learning Directorate is regarded as a related party. During the year SQA has had various material transactions with the Directorate. At the year end, there were no balances outstanding (2014: £nil). In addition, SQA has had material transactions with the Scottish Government Employability, Skills & Lifelong Learning Directorate. At the year end, there were no balances outstanding (2014: £nil).

In addition, SQA has had various material transactions with the following related parties, which were all made in the normal course of business.

Related party and reason	Entry charges levied by SQA		Charges incurred by SQA		Amounts due (to)/from SQA at 31 March	
	2014-15 £'000	2013-14 £'000	2014-15 £'000	2013-14 £'000	2015 £'000	2014 £'000
Beaconhurst School SQA Director, Dr Gill Stewart held the position of Governor at the school during the year.	23	17	-	-	-	-
Eyemouth High School SQA Board Member, Kenny McKay, holds the position of Deputy Head Teacher at the school.	29	-	-	-	-	-
Glasgow Clyde College ** SQA Board Member, Susan Walsh, holds the position of Principal at Glasgow Clyde College	489	797	23	4	-	85
Colleges Scotland SQA Board Member, Susan Walsh, holds the position of a Lead Principal for Colleges Scotland	1	-	-	1	-	-
Galashiels Academy SQA Board Member, Kenny McKay, held the position of Head Teacher at the school during the year.	74	73	-	-	-	-
Jordanhill School SQA Board Member, Dr Paul Thomson, holds the position of Rector at Jordanhill School and SQA Director, Linda Ellison is a Board Member there	54	53	3	-	-	-
NHS Education for Scotland SQA Board Member, Carole Wilkinson, holds the position of Non-Executive Board Member there	44	55	1	1	2	2

Related party and reason	Entry charges levied by SQA		Charges incurred by SQA		Amounts due (to)/from SQA at 31 March	
	2014-15 £'000	2013-14 £'000	2014-15 £'000	2013-14 £'000	2015 £'000	2014 £'000
Scottish Police Authority SQA Chairman, Graham Houston, is a Board Member there	6	106	-	4	-	94
Edinburgh College SQA Director, Maidie Cahill, was a Board Member there during the year.	1,026	1,047	6	8	16	105
Stirling Council SQA Chairman, Graham Houston, is a Councillor with Stirling Council	490	488	-	-	-	1
St George's School for Girls SQA Board Member, Prof John Simmons is a member of the school's council, its governing body.		53		-		1

**Cardonald College merged with Anniesland College and Langside College to form Glasgow Clyde College.

SQA is a member of the Scottish Credit and Qualifications Framework, a company limited by guarantee with company number SC311573. The other members of the company are: Colleges Scotland (formerly the Association of Scotland's Colleges); Scottish Ministers; the Quality Assurance Agency for Higher Education and Universities Scotland. The SCQF is a related party as SQA Chief Executive, Dr Janet Brown, holds the position of board member there. SQA levied charges of £5,000 (2014: £35,000) to the SCQF during the year. At the year end, £nil (2014: £nil) remained outstanding. In addition £5,000 (2014: £3,000) of charges were incurred by SQA. At the year end, £nil were outstanding.

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



SCOTTISH QUALIFICATIONS AUTHORITY

DIRECTION BY THE SCOTTISH MINISTERS

1. The Scottish Ministers, in pursuance of Section 16 of the Education Scotland Act 1996, hereby give the following direction.
2. The statement of accounts 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 (FRM) 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 3/ January 2006