

Student Awards Agency for Scotland

Report on the 2006/07 Audit



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Summary

Introduction

In 2006/07 we audited the financial statements of the Student Awards Agency for Scotland (SAAS) and we looked at aspects of performance management and governance. This report sets out our key findings.

Financial Position

We were able to conclude that SAAS's financial statements give a true and fair view of the financial position for the years ended 31 March 2007 and that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and relevant guidance.

Governance

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

Performance

Part of Audit Scotland's audit approach involves aspects of performance audit. As noted in our 2006/07 Audit Risk Analysis and Plan, we did not intend to review aspects of performance specific to SAAS. We would however, like to draw attention to a few wider public sector developments in the area of performance which is included in the main body of this report.

Looking forward

The final part of our report notes some specific key risk areas for SAAS going forward. The election of a new administration to the Scottish Government will present challenges and particular risks during the period of transition as changes to policy and funding settlements may have an adverse impact on the operations of SAAS. With this in mind there is an increased need to ensure that robust financial management processes are in place. These and the other issues outlined will be considered further as part of our risk assessment and audit planning process for the 2007/08 audit.

Audit Scotland
November 2007



Introduction

1. This report summarises the findings from our 2006/07 audit of SAAS. The scope of the audit was set out in our Audit Plan, which was presented to the Audit Committee on 30 January 2007. This plan described the work we planned to carry out on financial statements, performance and governance.
2. Appendix A of this report sets out the key risks highlighted in this report and the action planned by management to address them.
3. This is the first year of a five year audit appointment. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the SAAS during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website, www.audit-scotland.gov.uk.



Financial Statements

4. In this section we summarise key outcomes from our audit of the SAAS financial statements for 2006/07, and comment on the key financial management and accounting issues faced.

Our Responsibilities

5. We audit the financial statements and give an opinion on whether:
 - they give a true and fair view of the financial position of SAAS and its expenditure and income for the period in question.
 - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements, and
 - the regularity of the expenditure and receipts.
6. We also review the statement on internal control by:
 - considering the adequacy of the process put in place by the Chief Executive as Accountable Officer to obtain assurances on systems of internal control; and
 - assessing whether disclosures in the statement are consistent with our knowledge of SAAS.

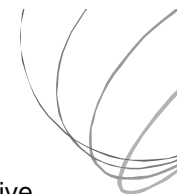
Overall Conclusion

7. We have given an unqualified opinion on the financial statements of the Student Awards Agency for Scotland for 2006/07.

Financial Position

2006/07 outturn

8. The purpose of the SAAS account is to demonstrate their use of the administration budget as set by the Scottish Executive (from 2007/08 onwards, the Scottish Government). Other funds issued by SAAS to students, such as grants, bursaries and graduate endowment are accounted for in the Scottish Executive's 2006/07 Enterprise, Transport and Lifelong Learning Department's outturn statement.



9. SAAS's net running cost budget in 2006/07 was £8.855 million (including Central Scottish Executive charges) against a total spend of £8.814 million resulting in an underspend of £41,000. The audited accounts show a total net operating cost of £8.814 million (2005/06: £7.756 million) representing an increase of approximately 13.6% on the previous year. The increase is largely due to additional depreciation being charged on fixed assets, disposal of obsolete equipment and the impairment of a fixed asset during the course of the financial year. Also, new in 2006/07, was the requirement for SAAS to meet the additional costs of solicitor debts recovery expenses for administering the Graduate Endowment Scheme which was previously met by the student support budget.

2007/08 budget

10. Scottish Ministers have set an initial resource budget for SAAS of £6.9 million for 2007/08. This comprises a running costs budget of £5.7m and £1.2m for capital expenditure. Given the 2006/07 underspend of £41,000 and the fact that it is very close to budgeted expenditure, SAAS will need to continue to ensure there is close monitoring of expenditure so that they do not exceed budget.

Issues Arising from the Audit

11. We reported to the Audit Committee on 27 June 2007 that all significant errors identified during the course of our audit had been corrected. Therefore, there are no significant issues or unadjusted errors that we need to bring to your attention.

Statement on Internal Control

12. The Statement on Internal Control provided by the Student Awards Agency for Scotland's Accountable Officer reflected the main findings from both external and internal audit work. In line with our expectations and that of the previous year, we have concluded that there is a sound system in place to support the Accountable Officer signing the Statement. The Audit Committee and risk register in operation at SAAS continue to reinforce this process. We have satisfied ourselves that the disclosures as required by the Scottish Public Finance Manual were provided and that the Statement is consistent with our knowledge of the client and consistent with the information emerging from our audit work.

Regularity Assertion

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



Performance

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

Performance

16. As previously mentioned, there were no specific outputs relating to SAAS in 2006/07 under the heading of Performance however we would like to draw attention to the wider public sector development below.

Best Value

17. As part of the 2007/08 audit we will be reviewing the progress that SAAS has made in strengthening their arrangements for securing Best Value since our baseline review work across the public sector in 2005/06. Over the next year we will also be developing and refining our approach to the audit of public bodies' arrangements to secure economy, efficiency and effectiveness in the use of resources, as this is one of our key objectives as auditors, set out within the new Code of Audit Practice approved by the Auditor General. This will inform our ongoing work to develop an approach to the audit of Best Value across the Scottish public sector. We intend to consult with both clients and stakeholders at key stages of these initiatives.



Governance

Overview of arrangements

18. This section sets out our main findings arising from our review of SAAS's governance arrangements.

This year we reviewed:

- key systems of internal control;
- internal audit; and
- aspects of information and communications technology (ICT).

19. We also discharged our responsibilities as they relate to prevention and detection of fraud and irregularity; standards of conduct; and the organisation's financial position (see paragraphs 5 - 6). Our overall conclusion is that the arrangements within the Student Awards Agency for Scotland are sound and have operated throughout 2006/07.

Systems of internal control

20. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In his annual report for 2006/07 the acting head of internal audit provided his opinion that, based on the internal audit work undertaken during the year, there was substantial assurance in respect of SAAS's risk management, control and governance arrangements.

21. As part of our audit we reviewed the high level controls in a number of SAAS's systems that impact on the financial statements. Our overall conclusion was that the key controls were operating effectively.

Internal audit

22. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2006/07 audit we assessed whether we could place reliance on the internal audit function.

23. SAAS's internal audit service is provided by the Scottish Executive's Audit Services division. During 2006/07 Audit Scotland's central services auditors carried out a comprehensive overview of the Scottish Executive's Internal Audit Service. The review concluded that the internal audit service operates in accordance with the Government Internal Audit Manual and we have therefore placed reliance on a number of internal audit reviews. In particular we placed reliance on their work in respect of IT security and business continuity.



Information and Communication Technology

Grant Aid for Scottish Student System (GRASS)

24. The GRASS system is a grant administration system for processing student award applications. Award applications are either received in paper form and scanned before processing, or received electronically, over the internet. For audit year 2006/07, we decided to carry out a high level overview of some of the aspects of managing the GRASS application system:
- **Scope, boundaries and links** – to ensure that the entry of the data on the system is controlled and sources of information are well managed;
 - **Data integrity** – to ensure that the integrity of the database is well managed and user access data is appropriately controlled;
 - **Control mechanisms** – to ensure that appropriate reporting is in place to identify exceptions and that changes to the data are appropriately monitored; and
 - **Change management** – to ascertain that changes to the system and its database are appropriately managed.
25. Our review identified a number of areas of good practice. However, some areas where the Agency should take action to mitigate against the risks that we have identified during this review including security in web applications, the over reliance on a few key staff and the limited management information available.

Computer Services Review

26. During 2006/07 we also carried out a high level Computer Services Review (CSR) at the Student Awards Agency for Scotland. The objective of the review was to gain information and assurance on the management arrangements for ICT services provided within the Agency. We noted several areas of good practice in our initial report including business continuity plans which include ICT and operational continuity elements; and a corporate risk register which identified threats to the continuing operation of the Agency and the steps taken to address these risks.
27. We highlighted some areas for improvement which are currently being actioned such as the responsibility of IT security being delegated to a specific individual and the move towards setting up a programme support office which will include an inventory of information assets and lead to compliance with the Information Security Standard BS77099/ISO27001.

National Fraud Initiative

28. The National Fraud Initiative (NFI) is a biennial data matching exercise whereby computerised techniques are used to compare and match information about individuals held by various public bodies and on various financial systems to identify potential fraud, error or anomalies for investigation.



29. Under the NFI, payroll data is downloaded and provided to the Audit Commission's NFI appointed auditor (who process the data for Audit Scotland) who matches this information against other data sets such as housing benefit applicants, local authority pensioners, students, deceased persons, etc. The results are passed back to Boards for further investigation and analysis.
30. In 2006/07 the Agency again took part in the National Fraud Initiative (NFI) in Scotland. NFI brings together data from councils, police and fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. This includes housing benefit fraud, and the inclusion of student data from SAAS helps identify students that are claiming benefits that they are not entitled to. The NFI has generated significant savings for Scottish public bodies (£27M to 2005) but, if fraud or overpayments are not identified in a body, assurances may be taken about internal arrangements for preventing and detecting fraud. In 2006/07 the SAAS student data was matched with Home Office information about failed asylum seekers and expired Visa matches.
31. The NFI 2006/07 results (data matches) were made available to bodies on 29 January 2007 via a new secure web-based application. Participating bodies are now following up the matches, as appropriate, and recording the outcomes of their investigations in the application.
32. We'd like to record our thanks to the Student Awards Agency for Scotland for being a willing participant in this exercise.



Looking Forward

33. The Student Awards Agency faces a number of challenges in 2007/08, which include:

- **Graduate Endowment** – In June 2007, the new Scottish Government announced its plans to abolish graduate endowment fees. The Graduate Endowment Abolition (Scotland) Bill has been drafted and was presented to the Scottish Parliament in October 2007, with the intention to have legislation in place by 1 April 2008. The Bill outlines the Scottish Government's plans to abolish the fee for around 50,000 students including those who have just graduated and those who have just started new courses. SAAS will need to ensure the outstanding fees are treated appropriately and in line with any new legislation.
- **GRASS (Grant Aid for Scottish Students)** – From April 1 2008, a new awards processing system for processing student awards is to be implemented called StEPS (Student Entitlement Processing System). SAAS are currently working through the scoping and design phase of the project with a view to the system becoming operational, in phases, from 1 April 2008. We will review the new system in due course.
- **Best Value** – Revised guidance on best value in the wider public sector has now been issued.
SAAS