

Scottish Further and Higher Education Funding Council

Report on the 2007/08 Audit



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Executive Summary

Introduction

In 2007/08 we looked at the key strategic and financial risks being faced by the Scottish Further and Higher Education Funding Council. We audited the financial statements and we also considered aspects of performance management and governance. This report sets out our key findings.

Financial Position

The FReM requirement to account for grant-in-aid and certain other grants as a credit to reserves has resulted in expenditure less other operating income for the year of £1.829 billion. The grant-in-aid and other grants credited to reserves for 2007/08 totalled £1.846 billion. As the Scottish Further and Higher Education Funding Council is funded on a financial year basis but distributes funds to institutions on an academic year basis, the expenditure in any financial year can be higher or lower than the level of funding provided for that year. Where expenditure exceeds the funds provided, the excess is funded from the reserves held for distribution at the end of the previous financial year. During 2007/08 there was an excess of grants and grant-in-aid over net expenditure of £16 million which resulted in an increase of £16 million in the reserves held at the end of the financial year.

Financial Statements

We have given an unqualified opinion on the financial statements of the Scottish Further and Higher Education Funding Council for 2007/08.

We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers.

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 the Agency operated satisfactorily during the year, as reflected in the Statement on Internal Control.

We examined the key financial systems which underpin the organisation's control environment. We concluded that financial systems and procedures operated sufficiently well to enable us to place reliance on them.



Performance

The Scottish Further and Higher Education Funding Council published its first 3 year corporate plan for the period 2006-09. A Performance Measurement Framework was approved in March 2007 and the Scottish Further and Higher Education Funding Council SFC has developed processes to monitor its performance in relation to the corporate plan objectives and priority actions using the detailed measures specified in the Performance Measurement Framework. Performance against these measures will be reported separately by the Scottish Further and Higher Education Funding Council in a separate Performance Evaluation which is due to be published later this year.

Best Value

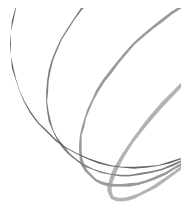
The Scottish Further and Higher Education Funding Council completed a baseline review of Best Value in 2005/06. Internal audit have carried out a review of progress since then. The majority of the Best Value themes are now considered by SFC to be 'well developed'. The report also suggested a number of recommendations to further embed Best Value into the organisation's decisionmaking processes to achieve Best Value and promote continuous improvement. We consider that progress is sufficient to fulfil the Accountable Officer's duty in this area. We plan to apply Audit Scotland's newly developed toolkits during the audit of the 2008/09 SFC accounts.

Looking forward

The final part of our report notes some key risk areas for Scottish Further and Higher Education Funding Council going forward. Tightening budgetary pressures, issues arising out of the Joint Future Thinking Taskforce on Universities, and the adoption of International Financial Reporting Standards, will represent significant challenges to the Scottish Further and Higher Education Funding Council.

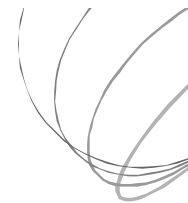
The assistance and co-operation given to us by Council members and staff during our audit is gratefully acknowledged.

Audit Scotland
12 August 2008



Introduction

1. This report summarises the findings from our 2007/08 audit of the Scottish Further and Higher Education Funding Council (SFC). The scope of the audit was set out in our Audit Plan, which was presented to the Audit Committee on 22 November 2007. This plan set out our views on the key business risks facing the organisation and described the work we planned to carry out on financial statements, performance and governance. This report completes our audit by giving an overview of the work we carried out and a summary of the key findings.
2. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the SFC 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 Position

3. In this section we summarise key outcomes from our audit of the SFC financial statements for 2007/08, and comment on the key financial management and accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available to it and its financial performance in the use of those resources.

Our responsibilities

4. We audit the financial statements and give an opinion on:
 - whether they give a true and fair view of the financial position of the SFC and its expenditure and income for the period in question;
 - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
 - the consistency of the information which comprises the Management Commentary and the unaudited part of the Remuneration Report included in the Annual Report with the financial statements; and
 - the regularity of the expenditure and receipts.
5. We also review the statement on internal control by:
 - considering the adequacy of the process put in place by the Interim 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 the SFC.

Overall conclusion

6. We have given an unqualified opinion on the financial statements of the SFC for 2007/08.
7. As agreed, the unaudited financial statements were provided to us on 8 May, supported by a comprehensive working paper package. The good standard of the supporting papers and the timely responses from SFC staff allowed us to conclude our audit within the agreed timetable and provide our opinion to the Audit Committee on 16 July as timetabled.



Financial Position

Outturn 2007/08

8. The FReM requirement to account for grant-in-aid as a credit to reserves has resulted in expenditure less other operating income for the year of £1.829 billion in 2007/08 (2006/07: £1.780 billion). The grant-in-aid and other grants credited to reserves for the year was £1.846 billion (2006/07: £1.776 billion). The SFC's Net Asset Position increased to £29.7 million (2006/07: £13.5 million)
9. The SFC is funded on a financial year basis but distributes funds to institutions on an academic year basis. Academic years run from August to July each year. The level of funds distributed in any financial year therefore depends on the expenditure profiles of the relevant two overlapping academic years. Expenditure in any financial year can therefore be higher or lower than the level of funding provided for that year. Where expenditure exceeds the funds provided, the excess is funded from the reserves held for distribution at the end of the previous financial year.
10. The total grant-in-aid received in 2007/08 comprised £1.837 billion for distribution to Higher Education Institutions and Colleges (2006/07: £1.767 billion) and £8.4 million for SFC's running costs (2006/07: £8.2 million).
11. The SFC's net expenditure on running costs was £8.4 million. The grant-in-aid received for running costs was £8.4 million resulting in no increase or decrease to the running costs reserve. The SFC operated within the cash limited allocations of funds for distribution and running costs provided by the Scottish Government.

2008/09 Budget

12. Scottish Ministers have agreed a grant-in-aid budget for SFC of £1.689 billion for 2008/09. This comprises:

Exhibit 1 – 2008/09 Resource Plan

	£ million
Current Funding for Further Education Colleges	520.7
Capital Grants for Further Education Colleges	89.3
Current Funding for Higher Education Institutions	904.2
Capital Grants for Higher Education Institutions	87.4
Other ring fenced grants	78.6
SFC running costs	8.3
Total Operating Plan	1,688.5

13. Current projections forecast expenditure to be within budget in 2008/09. The SFC will also be expected to achieve 2% year on year efficiency savings.



Issues arising from the audit

14. As required by auditing standards we reported to the audit committee on 16 July 2008 the main issues arising from our audit of the financial statements. The key issues reported were:

15. **Grants Reconciliation.** The reconciliation between the Vision grant payment records and the Sun Ledger system was performed only twice during the financial year, with the most recent reconciliation (December 2007) being unsigned. The year end reconciliation was still outstanding as at 2 July 2008. There is a risk that the ledger may not accurately reflect the grant payments recorded on the Vision system. The SFC has agreed to review the reconciliation procedures and ensure that reconciliations are completed at appropriate intervals during the financial year and at the year end.

Action Plan 1

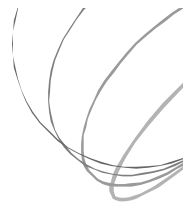
16. **Cash balance.** The cash balance of £6.6 million at the year end was higher than expected and significantly higher than the previous year end balance of £1.2 million. It is normal practice for the SFC to adjust grant payment profiles to avoid having a significant cash balance at the year end. The accounting treatment of the late award of two tranches of £10 million to SFC were examined in the light of the cash balance. Although some re-profiling of grant payments was carried out, these were not sufficient to prevent a significant cash balance from occurring at the year end. The SFC has investigated the reasons for the significant year end cash balance and identified areas for improvements in its cash management procedures.

17. **Accounting for Grants.** We identified a number of awards of Grants In Aid to SFC, approved by the Scottish Government, towards the end of the financial year, which resulted in subsequent payments of grant to HEIs and Colleges. In one case, details of the grant were given to Colleges in April 2008 and payment made in May 2008. The current accounting policy is unclear about the need to account for grant payments to HEIs and Colleges in relation to the underlying activities giving rise to the grant and achieving consistency of treatment year on year.

Action Plan 2

18. **Recovery of Excess Sale Proceeds.** Prior to the 2007/08 financial year end, the SFC took the decision to recover an amount of approximately £4 million in excess sale proceeds from Clydebank College. Although they did not write formally to the college to seek repayment until after the year end, UK GAAP required the transaction to be recognised in the 2007/08 accounts. The budgeting procedures operated by SFC did not recognise this income in the 2007/08 financial year and consequently did not include an equivalent additional amount of expenditure in the financial year. The SFC has agreed to review its procedures to ensure that any similar transactions are identified and taken into account in the expenditure budgets for the financial year in which the equivalent income transactions are recognised.

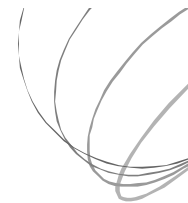
Action Plan 3



19. **Management letter.** A letter, to management including an action plan, is being prepared covering other non material items identified during the course of the audit. All items have been discussed with management and none are sufficiently material to warrant inclusion in this report.

Regularity Assertion

20. 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 were 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.



Governance

Overview of arrangements

21. This section sets out our main findings arising from our review of the SFC governance arrangements.

This year we reviewed:

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

22. 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 8-11). Our overall conclusion is that arrangements within the SFC are sound and have operated through 2007/08.

Systems of internal control

23. 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 their annual report for 2007/08 internal audit provided the opinion that, based on the internal audit work undertaken during the year, there was reasonable assurance on the adequacy and effectiveness on the systems of internal control.

24. As part of our audit we reviewed the high level controls in a number of SFC systems that impact on the financial statements.

25. A number of minor items will be reported in our management letter in due course together with an action plan. The items have been discussed and agreed with management at our wash-up meeting on 30 June. The points raised will include issues of documentation, authorisation, and additional issues arising out of the internal control checklists. Other points include various disclosure issues which can be considered for the proposed revision of the account format for the 2008/09 accounts.

26. Our overall conclusion was that key controls were operating effectively with the exception of the grant ledgers reconciliations (Action Plan 1).



Prevention and detection of fraud and irregularities

27. The SFC has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption, including policies and codes of conduct for staff and Council members.

Internal Audit

28. 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 2007/08 audit we assessed whether we could place reliance on the SFC internal audit function (provided by KPMG). We concluded that the internal audit service operates in accordance with the Government Internal Audit Manual and therefore placed reliance on their work in the areas of Funding to Institutions, Education Maintenance Allowances, Budgetary Controls, Research Pooling, Best Value arrangements and Delivery of the Corporate Plan, as we anticipated in our annual audit plan. We confirmed this is in a letter to the Accountable Officer on 31 March 2008.

Statement on Internal Control

29. The Statement on Internal Control provided by the SFC's Accountable Officer reflected the main findings from both external and internal audit work. This recorded management's responsibility for maintaining a sound system of internal control set out the SFC's approach to this.

Loss of Student Data

30. During 2007 the SFC commissioned York Consulting LLP to carry out a survey to find out about how college students choose courses. York Consulting sub contracted the interviews to a market research company, Research Resource. In December 2007, five boxes containing approximately 1,500 paper forms with the data collected during the survey were lost, having been despatched to York Consulting LLP by Research Resource via a courier, City Link. The SFC conducted a full investigation into the circumstances surrounding the loss of student data and reported this to the Scottish Government. Action has been taken to improve procedures, including the inclusion of good practice guidance recommendations in SFC's standard terms and conditions and advising all current contractors of the new good practice guidance.
31. The Scottish Government has since carried a review of data handling arrangements in Scotland which was published in June 2008 (see paragraph 70). We will monitor the SFC's response to the review and action taken as part of our 2008/09 audit.



Information and Communication Technology

Computer Service Review

32. During the 2006/07 audit, we carried out a Computer Service Review Client Questionnaire (CSR-CQ) which provided a high-level risk based assessment of ICT services. We reported our detailed findings from this exercise separately in our report issued in April 2007.
33. As part of our 2007/08 audit we followed up the previous review to determine what progress the SFC had made in implementing the agreed actions. Our overall assessment was that the SFC has made improvements in its provision of ICT arrangements, and we identified some examples of good practice. We also identified some areas where improvements can be made.
34. The implementation of the Electronic Data and Records Management System (EDRMS) has been a priority area of work for SFC. However, the SFC has also made good progress towards implementing the action points from other areas in the original CSR-CQ review. In particular the following positive progress is noted:
- completion of the review of the Knowledge Management and Information Technology (KMIT) strategy which has resulted in a revised and formally approved strategy for the period 2008-2011;
 - introduction of a formally approved Information Management Framework underpinned by a number of detailed policies and procedures for both records management and ICT security;
 - introduction of a permission control model to manage all access rights and user privileges; and
 - introduction of backup and software update procedures with the development of other operational procedures underway.
35. The SFC have also identified a number of key tasks the outcomes of which, once implemented, will address the remaining risks we identified, including:
- ongoing development of specific data handling guidance and the implementation of a new endpoint security solution;
 - an independent review of the ICT infrastructure to ensure that it is fit for SFC business purposes, including consideration of the proposed ICT failover, redundancy and disaster recovery services; and
 - an environmental audit of the communications rooms and the cabling infrastructure and implementation of environmental, power, network and production services monitoring.



Review of EDRMS implementation

36. SFC has introduced an electronic data and records management system (EDRMS) which organises electronic information, improves accessibility, and reduces multiple copies of documents and the potential for decisions being taken on out of date information. The system has also been designed to help comply with the requirements of the Freedom of Information and Data Protection legislation and the Modernising Government agenda.
37. Audit Scotland reviewed the design process of the new system and the impact of changes, requirements of staff and the level of disruption to business operations. We also looked at the effectiveness of migration and classification of files from the old network file system and evaluated the proposal for a pilot scanning solution.
38. Our work identified that SFC have successfully implemented the EDRMS. We recognised that it required a whole culture change and will see SFC moving progressively to a culture which promotes knowledge sharing and open collaboration.
39. We also reviewed the proposed scanning solution to support the ERDMS. This confirmed that the proposed solution will allow SFC to follow good practice and comply with the Code of Practice for Legal Admissability and Evidential Weight for Information Stored Electronically (BIP0008).
40. The EDRMS implementation highlighted a number of areas of good practice, including:
 - a formal project governance structure;
 - effective change management and quality assurance processes;
 - customising software to ensure the appropriate categorisation/criteria are captured and adequate technical controls implemented;
 - delivering a comprehensive programme of consultation and training throughout the life of the project; and
 - recognising the importance of user acceptance testing and feedback for both the implementation and ongoing phases.
41. We noted that the SFC have identified records management policies and procedures as development areas in the KMIT strategy for 2008-2011 and are continuing to develop their records management policies and supporting procedures to ensure that the integrity of the EDRMS is maintained. As part of a future audit, a review will be conducted to establish the adequacy and effectiveness of these policies and procedures and whether they meet legislative requirements.
42. A planned '*Your Business at Risk (YB@R)*' report has been postponed until later in the summer 2008.



Performance Management

43. 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.
44. 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.

Best Value developments

45. The positive impact of the Best Value concept in local government led Scottish Ministers to introduce a non-statutory Best Value duty on all public sector accountable officers (i.e. across health and central government) in 2002. This was reinforced by refreshed Ministerial guidance in 2006, highlighting the importance that the Scottish Government places on Best Value as a means of supporting public service reform.
46. That position was again re-iterated in the Scottish Government's recent response to the Crerar scrutiny review which credited the Best Value regime as a key driver of modernisation and improvement in public services. Audit Scotland is committed to extending the Best Value audit regime across the whole public sector and significant development work has taken place over the last year.
47. The framework for our proposed Best Value audit approach was agreed by Audit Scotland's Corporate Management Team in September 2007. It is based on the key principles of flexibility and proportionality; alignment and integration with our existing activities; being delivered within our existing resources, and with an evolutionary implementation.
48. Using the Scottish Government's nine best value principles as the basis for our audit activity, we have identified five priority development areas (Use of Resources, Governance and Risk Management, Accountability, Review and Option Appraisal, and Joint Working) for our initial development work.
49. Currently we are concentrating on the development of Use of Resources audit toolkits, focusing initially on Financial Management, Efficiency, and Information Management. These toolkits are being piloted in a sample of NHS and central government clients during 2007/08 and 2008/09. Developed toolkits will also be made available to public bodies to consider for self assessment. Audit Scotland will use the toolkits during the 2008/09 audits of SFC.



50. SFC completed a baseline review of Best Value in 2005/06. Although since that time there has been no further formal assessment of Best Value at SFC, management have been expected to have been monitoring and developing arrangements. In May 2008, Internal audit carried out a review of progress since the original baseline review. The majority of Best value themes are now considered by SFC to be 'well developed'. The report also suggested a number of recommendations to further embed Best Value into the organisation's decisionmaking processes to achieve Best Value and promote continuous improvement. We have examined Internal Audit's review of Best Value arrangements and noted the management response to the action plan. We would endorse the findings and will consider the recommendations in future audits. We consider the current and proposed actions by SFC on Best Value to be sufficient to fulfil the Accountable Officer's duty in this area.

Efficient Government

51. This was the last year of the three year efficiency programme. Due to the timing of the production of college accounts, the figures for 2007/08 will not be available until later in 2008. Indications from SFC are that the target savings will be exceeded. Revised figures for the 2005/06 and 2006/07 efficiency savings are due to be reported to the Scottish Government in the Autumn and are expected to be substantially above the previous estimates. However a 2% efficiency target has been set for future years. This will be tight in view of current economic constraints.

Exhibit 2 – Efficiency Savings 2005/06 to 2007/08

	Target £ million	Actual £ million
2005/06	6	12*
2006/07	50	55.7*
Total	56	
2007/08	95	N/A

* estimates

Performance Management

52. The management commentary gives details of the financial performance of the SFC. Although the management commentary describes the levels of activity it does not report the performance of the SFC against the performance measures agreed in the 2006-09 corporate plan. Performance against these measures will be reported separately by SFC in a separate Performance Evaluation which is due to be published later this year. The Cabinet Secretary for Education has, in her guidance letter issued to the SFC in January 2008, requested that a jointly owned performance framework for the Council be developed which draws on both the concordat with Scottish Local Authorities and the government's National Performance Framework. Discussions on this are due to take place during 2008/09.



National Studies

Financial overview of Scotland's colleges 2006/07

53. The Audit Scotland financial overview of Scotland's colleges in 2006/07 was published in April 2008. It provided an overview of the financial performance and governance arrangements of Scotland's colleges in 2006/07.
54. The last financial overview report on colleges 2001/02 annual accounts highlighted concerns about the sector and within individual colleges. Since then the Auditor General has prepared a number of Section 22 reports on the annual accounts of seven colleges bringing deficits to the attention of the Scottish Parliament. The Parliament's Audit Committee has also held evidence sessions on the Section 22 reports of three college. Over the last few years various key stakeholders have expressed concerns about the financial performance of the sector including the Scottish Parliament's Audit Committee, Scottish ministers and the SFC.
55. There has, also, been a significant increase in public sector funding provided to colleges since 2001/02 – an increase of around £31 million (real terms) in revenue funding and an increase of £64 million (real terms) of capital funding. There has also been a combined effort to improve financial sustainability and governance arrangements across the sector and within colleges.
56. This overview report provided an updated position on the overall financial performance and governance of the sector and individual colleges. It included explanations of how overall performance had improved and what progress had been made against recommendations made in previous Auditor General reports. It also identified challenges to the financial sustainability of colleges.
57. The overall financial performance of Scotland's colleges has improved over the last five years moving from an overall operating deficit of £6 million in 2002/03 to an overall surplus of £16.9 million in 2006/07. The number of colleges recording operating surpluses has increased and the overall accumulated surplus has grown to £98.9 million.
58. This improving position has been achieved by increases in funding; a sustained concentration on financial security by the SFC and colleges; and a renewed focus on networks and peer support within the sector. There has also been significant capital investment since 2000 with a number of major campus and estates developments.
59. Against this picture, however, the sector continues to face a number of challenges over the next few years including a tighter financial settlement and the risk of reductions in other sources of funding. Seven colleges forecast deficits in at least one of the next three years.



60. Auditors report that governance arrangements appear to be generally sound although there remains some room for improvement. In general there is evidence to show that lessons are being learned from those colleges where weak governance arrangements have led to financial difficulties. The report made a number of recommendations for the SFC and for colleges on issues including financial planning and sustainability, performance measurement and accounting policies and arrangements.

Estate management in higher education

61. This report was published in September 2007 and examined the impact of public sector capital funding on the HE estate over the period 2001/02 to 2005/06, considered the role of the SFC and looked at how individual institutions manage their estates.
62. Scotland's 21 HE institutions, which include universities and colleges, have almost 1,000 non-residential buildings across 72 sites, worth almost £5 billion. While spending on the estate has increased in recent years, almost half of it needs to be improved over the next few years. It will cost approximately £700m to bring it all up to a sound standard.
63. Public sector money accounts for about a third of HE institutions' spending on their estates. In 2005/06, HE bodies spent £211 million on their estates. Of this, £74 million was public sector funding. By March 2008, the SFC will have distributed £459 million to improve the estate over the previous seven years. However the SFC does not yet publicly report on the outcome of this investment.
64. The SFC started providing funding specifically for the HE estate in 2001/02. Since then the overall condition of the estate has improved, but the maintenance backlog has also grown. The report says there should be a sustained commitment to maintaining and developing the estate.
65. The report recommended the SFC works with the Scottish Government and institutions to support their strategic planning. It says institutions should develop realistic funding plans to support their estate strategies and make better use of performance information.

How Government Works: major capital projects'

66. The Audit Scotland report on major capital projects was published on 24 June 2008. The study presented a picture of how Scottish Government, agencies and NDPBs have been and are delivering major capital projects. It provided Parliament with the first wide view report on the delivery of major capital projects to time, cost and quality. Audit Scotland obtained completed project data from a survey of these projects. There was a high-level assessment on 5 completed and 15 in-progress projects on performance to time costs and quality and project management arrangements. Key messages arising out of the report were as follows:



- in general, the achievement of cost and time targets improved significantly as projects progressed. While there was over optimism at project approval stage, performance improved after contracts were awarded as plans are more certain and risks clearer;
- most completed projects have successfully delivered the required roads, hospitals and other assets, and all current projects are forecast to do so. However, few projects have been evaluated against the expected wider benefits which originally justified the investment; and
- project management and governance arrangements within individual projects are broadly effective, although room for improvement remains. A more strategic approach to managing the programme of capital projects could improve value for money.

67. The report made a number of recommendations for both the Scottish Government and public bodies. It recommended that the Scottish Government should report in public on the performance of projects, particularly any reasons for changes to costs and timing and what lessons can be learned from completed projects. It also made a several recommendations to public bodies on strengthening business cases, improving project management and governance arrangements, and post project reviews.

Future studies

68. Audit Scotland is planning a study on '*Strategic procurement*' to provide an assessment of public sector progress against the McClelland recommendations to improve public sector procurement. The study will also seek to quantify the efficiency savings being realised through improved procurement practices and the extent to which cash has been released for other priorities. Planned improvements will also be commented on and good practice identified. Scoping work is currently underway for the study and it is anticipated that SFC and a small number of Further Education Institutions may be involved.

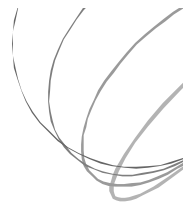
69. At the end of June, Audit Scotland issued a '*Consultation on Proposals for National Performance Audit Studies - October 2008 to March 2010*'. The paper listed 37 potential areas for examination across the Scottish public sector. We welcome views by Friday 12 September 2008 from our stakeholders about which of these potential studies will be taken forward to form our forward programme of work over the next two years. These views will ensure our work is broad and balanced, and focuses on where we can have most impact.



Looking Forward

70. The SFC faces a number of challenges in 2008/09, which include:

- **International Financial Reporting Standards (IFRS)** – As part of the UK Budget 2007 the Chancellor announced that the timetable for IFRS implementation was to be extended by a year with central government accounts in Scotland to become IFRS compliant with effect from the 2009/10 financial year. The Scottish Government have notified central government bodies that they will be required to produce shadow IFRS based accounts for the financial year in 2008/09, including a restated balance sheet as at 1 April 2008. A detailed timetable and list of requirements is awaited from the Scottish Government. This process may require significant resource to complete and it will be important that the restatement is tackled early in 2008/09, with a plan in place to manage the transition.
- **Scotland Performs** – The Scottish Government is continuing to develop its approach to performance management based on a National Performance Framework and outcome agreements. The National Performance Framework is based on the outcome based 'Virginia-style' model of performance measurement and reporting. In support of this the Scottish Government has developed a new electronic tool and website to communicate to the public on Scotland's progress. This will include progress on overall delivery of the administration's purpose for Government, the five strategic objectives for Scotland and other aspects of the outcomes based National Performance Framework. We will consider how the SFC is addressing this developing area as part of the 2008/09 audit.
- **Joint Future Thinking Taskforce on Universities:** – this consultation report sets out a framework for a new relationship between SFC, the Scottish Government and universities for the next 20 years. The proposals would result in a change in the role of the SFC with less involvement in the administration of institutions but with an increased emphasis on ensuring that sector deliveries matched ministerial priorities. The review is due to be completed by September and published with a view to being implemented from the start of academic year 2009/10.
- **Efficiency and future funding** – Budgets for 2008/09 and the immediate future will need to be managed within a tighter funding regime. This includes significantly less scope for the application of end of year flexibility for the Scottish Government with HM Treasury until the next Spending Review; no option to transfer funds from capital to revenue; and the impact of the introduction of International Financial Reporting Standards (IFRS), particularly on PFI, leases and infrastructure accounting. The challenge for the SFC is to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives.



- **Data handling** – The Scottish Government carried out a review of data handling arrangements in Scotland, in response to failures in UK government bodies procedures and practices during 2007. The review considered current policies and procedures on data protection, consistency with government standards and local arrangements for implementation of procedures. A report published in June 2008 made recommendations for a higher level of oversight and guidance from the Scottish Government and suggested that there was a need for further measures to improve the security of sensitive information. We will monitor the SFC's response to the review and action taken as part of our 2008/09 audit.

Appendix A: Action Plan

Key Issues and Planned Management Action

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
1	<p>Grant Reconciliations</p> <p>The year end reconciliation between the Vision grant payment records and the Sun ledger system had not been carried out as at 2 July 2008. From a review of the reconciliations performed during the year, it appears that the reconciliation was performed twice during the financial year, in June and December 2007, with the December reconciliation being unsigned.</p> <p>In the absence of this reconciliation being completed on a regular basis, there is a risk that the ledger may not accurately reflect the grant payments recorded on the Vision system.</p> <p><i>We recommend that the SFC reviews its procedures for reconciling the Sun Ledger and Vision systems and ensures that the reconciliation is completed at appropriate intervals during the financial year and at the year end.</i></p>	<p>Agreed - we will review our procedures for reconciliation.</p>	<p>Fiona O'Neill, Head of Finance & Facilities Jennifer McGregor & Fiona Burns, Heads of Funding</p>	<p>October 2008</p>

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2	<p>Accounting Policy For Grants</p> <p>During our audit we identified a number of awards of Grants In Aid to SFC approved by the Scottish Government towards the end of the financial year which resulted in subsequent payments of grant to HEIs and Colleges. In one case, details of the grant were given to Colleges in April 2008 and payment made in May 2008. The current accounting policy is unclear about the need to account for grant payments to HEIs and Colleges in relation to the underlying activities giving rise to the grant.</p> <p>There is a risk that prepayments may be incorrectly calculated for the period of April to July in the academic year.</p> <p><i>We recommend that SFC reviews its current accounting policies for grants to ensure that they relate to underlying activities and to ensure consistent treatment year on year.</i></p>	Agreed – we will review our accounting policy for grants	Fiona O'Neill, Head of Finance & Facilities Riona Bell, Director of Funding	October 2008

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3	<p>Recovery of Excess Sale Proceeds</p> <p>Prior to the 2007/08 financial year end, the SFC took the decision to recover an amount of approximately £4m from Clydebank College in relation to excess sale proceeds from the disposal of the college's Kilbowie Road site. Although SFC did not formally write to the college to seek repayment until after the year end, UK GAAP required the transaction to be recognised in the 2007/08 financial year.</p> <p>As the budgeting procedures operated by SFC did not take this sum into account in the 2007/08 financial year, they did not budget for the equivalent expenditure in the 2007/08 financial year.</p> <p><i>We recommend that the SFC reviews its procedures to ensure that any similar transactions are identified and taken into account in the budgeting process in the financial year to which they relate.</i></p>	<p>Agreed – we will review our procedures in relation to recovery of excess sale proceeds</p>	<p>Riona Bell, Director of Funding</p>	<p>September 2008</p>