

Student Awards Agency for Scotland

Report on the 2007/08 Audit



August 2008



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Contents

Executive Summary	1	Performance Management	10
Introduction	3	Looking Forward	12
Financial Position	4	Appendix A: Action Plan	14
Governance	7		



Executive Summary

Introduction

In 2007/08 we looked at the key strategic and financial risks being faced by the Student Awards Agency for Scotland (SAAS). We audited the financial statements and we also reviewed aspects of performance management and governance. This report sets out our key findings.

Financial Position

The Agency's net running costs in 2007/08 totalled £9.825 million against a budget of £9.783 million (including Central Scottish Government charges), resulting in an overspend of £42,000. Net operating costs were approximately 11.5% higher than 2006/07, largely due to the impairment of fixed assets of £1.301 million being the cost of rendering the old student award processing system obsolete.

Scottish Ministers have agreed a resource budget for SAAS of £7.1 million for 2008/09. Given the 2007/08 overspend, the Agency will need to ensure that robust budget monitoring takes place in 2008/09 to ensure that they do not exceed budget again.

Financial Statements

We have given an unqualified opinion on the financial statements of the Student Awards Agency for Scotland 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 Student Awards Agency for Scotland operated satisfactorily during the year, as reflected in the Statement on Internal Control. At its last meeting on 1 July 2008, the Agency's Audit Committee recognised that its composition and remit would have to be reviewed in line with forthcoming guidance from the Scottish Government. We understand that proposals will be put to the next meeting of the Management Board.

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

In 2007/08 the Agency received over 136,000 applications for award and dealt with 72% of these within 12 days of receipt, compared to a target of 50%. There is a risk, however, that the current level of vacancies in the organisation, when combined with the implementation of a new student award system, could have an adverse impact on future processing performance.

Best Value

Over the next year we will be developing and refining our approach to the audit of public bodies' arrangements to secure economy, efficiency and effectiveness in the use of resources. 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.

Looking forward

The final part of our report notes some key risk areas for the Agency going forward. In particular, during the next year the Agency plans to introduce a new bespoke student awards processing system (StEPS). The implementation of such a key system presents a number of risks to the Agency and will need to be effectively managed over the coming year.

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



August 2008



Introduction

1. This report summarises the findings from our 2007/08 audit of the Student Awards Agency for Scotland. The scope of the audit was set out in our Audit Plan, which was presented to the Audit Committee on 28 January 2008. 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.
2. We have issued a range of reports this year, and we briefly touch on the key issues we raised in this report. Each report set out our detailed findings and recommendations and the Board's agreed response. Appendix A sets out the key risks highlighted in this report and the action planned by management to address them.
3. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the Student Awards Agency for Scotland 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

4. In this section we summarise key outcomes from our audit of the Student Awards Agency's 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

5. We audit the financial statements and give an opinion on:
 - whether they give a true and fair view of the financial position of the Student Awards Agency for Scotland and its expenditure 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 Board Report and Management Commentary with the financial statements; 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 the Agency.

Overall conclusion

7. We have given an unqualified opinion on the financial statements of the Student Awards Agency for Scotland for 2007/08.
8. As agreed the unaudited accounts were provided to us on 27 May 2008. Timely responses from Agency staff allowed us to conclude our audit within the agreed timetable and provide our proposed opinion to the Audit Committee on 1 July 2008 as timetabled.



Financial Position

Outturn 2007/08

9. The Student Awards Agency for Scotland is required to work within the resource budget set by the Scottish Government for its administrative costs. Other funds issued by SAAS to students, such as grants and bursaries, are accounted for in the Scottish Government's financial statements.
10. The Agency's net running costs in 2007/08 totalled £9.825 million against a budget of £9.783 million (including Central Scottish Government charges), resulting in an overspend of £42,000. Net operating costs were approximately 11.5% higher than 2006/07, largely due to the impairment of fixed assets of £1.301 million being the cost of rendering the old student award processing system obsolete.
11. Capital expenditure totalled £1.172 million and was £0.380 million under budget. The majority of capital expenditure in 2007/08 related to the ongoing costs of designing and building a new awards processing system (StEPS).

2008/09 Budget

12. Scottish Ministers have agreed a resource budget for SAAS of £7.1 million for 2008/09. This consists of £5.9 million for running costs and £1.2 million for capital charges. Given the 2007/08 overspend, SAAS will need to ensure that robust budget monitoring takes place in 2008/09 to ensure that they do not exceed budget again.

Key risk area 1

Issues arising from the audit

13. As required by auditing standards, we reported to the audit committee on 1 July 2008 the main issues arising from our audit of the financial statements. The key issues reported to the committee were:
 - Two errors were identified during the audit, where if adjustments were made these would have a net effect of increasing operating costs, and reducing net assets, by £11,255. These errors, while more than clearly trivial, are immaterial to the accounts as a whole. Officers in finance proposed not to adjust the accounts for these errors and we concurred.
 - Closedown procedures for preparing the annual accounts could be documented more methodically to aid the process of preparing the accounts and subsequently improve the information made available for audit. Given that one lead officer carries out the majority of detailed work in preparing the accounts, implementing adequate closedown procedures will help ensure other officers, as well as the lead officer, can carry out these tasks.
 - Disclosures in relation to assets under construction and the impairment of the GRASS student award system could be improved. Although disclosures were subsequently improved in the audited financial statements, the Agency does not have a documented policy for the capitalisation of staff costs.

Key risk areas 2 - 4



14. We also noted that the Agency's aged debtors listing includes items relating to 2002/03. Although the sum involved of £9,620 is not material, as a matter of good practice the Agency should investigate all old debts and arrange for write off where necessary.

Key risk area 5

Regularity Assertion

15. 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

16. This section sets out our main findings arising from our review of the Agency's governance arrangements. This year we reviewed:
- key systems of internal control;
 - internal audit; and
 - aspects of information and communications technology (ICT).
17. 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 9 to 12). Our overall conclusion is that arrangements within SAAS are sound and have operated through 2007/08.
18. The Agency's audit committee arrangements need to be reviewed, however, and changes made to comply with forthcoming guidance to be issued by the Scottish Government. For example, we noted that:
- there is only one non-executive member (the Chair);
 - senior executive officers are members of the Committee;
 - the Committee does not meet a minimum of three times a year.
19. This issue was recognised at the last Audit Committee on 1 July 2008 and we understand that arrangements will be reviewed by the Management Board.

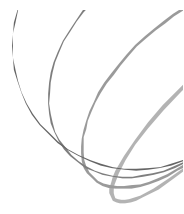
Key risk area 6

20. Another area where governance arrangements could be enhanced is in relation to the Register of Interests as currently there is no mechanism where non-executive members can declare any interests.

Key risk area 7

Systems of internal control

21. 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 2007/08 the 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 the Agency's risk management, control and governance arrangements.



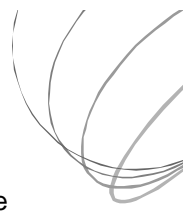
22. As part of our audit we reviewed the high level controls in a number of the Agency's systems that impact on the financial statements. Our overall conclusion was that key controls were operating effectively.
23. As a number of the Agency's financial systems are provided by the Scottish Government, including its main financial accounting system, we also relied on the work of the Scottish Government external audit team to assess the effectiveness of key internal controls. The Scottish Government auditors concluded that adequate assurance could be taken from the key controls in all main financial systems with the exception of payroll, where only limited assurance could be taken. As a result, we undertook additional audit testing on payroll to ensure that the Agency's financial statements were not materially miss-stated.

Statement on Internal Control

24. The Statement on Internal Control provided by the Agency'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 and set out the Agency's approach to this.

Prevention and detection of fraud and irregularities

25. The prevention and detection of fraud and irregularities plays a key role in the work of the Agency. The work undertaken by the Fraud Unit within the Agency has increased and a number of significant investigations are being undertaken.
26. SAAS was one of 74 public bodies to take part in the latest National Fraud Initiative (NFI 2006/07). This exercise is undertaken as part of the audit of the participating bodies. The NFI brings together data from councils, health bodies, police, fire and rescue boards and other agencies including SAAS, to help identify and prevent a wide range of frauds against the public sector. These include housing benefit fraud, occupational pension fraud and payroll fraud.
27. The NFI has generated significant savings for Scottish public bodies (£9.7 million from the 2006/07 exercise and £37 million including previous exercises). Where fraud or overpayments are not identified in a body, assurances can usually be taken about internal arrangements for preventing and detecting fraud.
28. In May 2008 Audit Scotland released its report *National Fraud Initiative in Scotland 2006/07*. A full copy of the report is available on Audit Scotland's website www.audit-scotland.gov.uk. The report highlighted a range of areas where prevention and detection of fraud had been enhanced.
29. The Agency provided information on student data that was matched to housing benefit data which resulted in 173 overpayments of housing benefit to students being identified. The Agency also provided information to the Home Office in relation to data matches on asylum seekers and visa applications.



30. Looking forward, Audit Scotland is working to widen the scope of the NFI in line with the rest of the UK. Public bodies will provide information again in October this year as part of their 2008/09 audits, with the output expected in early 2009. We shall continue to monitor the Agency's progress.

Internal Audit

31. 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 internal audit function. We concluded that the internal audit service operates in accordance with the Government Internal Audit Manual and therefore placed reliance on their work in number of areas during 2007/08, as we anticipated in our annual audit plan. In particular we placed reliance on their work in relation to corporate governance and risk management.

Information and Communication Technology

32. During 2006/07 we carried out reviews of ICT services within the Agency. The first review, reported in February 2007, was an application system review of the GRASS (Grant aid for Scottish Students) system. The second review, reported in May 2007, was a computer services review of overall ICT management.
33. In 2007/08 we followed up on the agreed actions arising from both of these reviews. The change in administration of the Scottish Government and the creation of a new student payment processing system has affected the progress made and much of the work is still ongoing. As a result, we shall continue to monitor this area over the coming year.



Performance Management

34. 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.
35. 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

36. In 2007/08 the Agency received over 136,000 applications for award and dealt with 72% of these within 12 days of receipt, compared to a target of 50%.
37. Currently the Agency has 23 vacancies (full time equivalent) which present a risk to future processing performance. However, the Agency's new operating system (StEPS) should be fully in place before the end of 2008 and has the potential to automate a high percentage of routine casework. If this potential is realised, SAAS will wish to recruit staff with different skills to work on improving service quality and extending the scope of the outreach work that the Agency carries out at schools and higher education institutions. In the meantime, SAAS intends to mitigate the risk by filling essential posts with temporary staff.

Key risk area 8

Best Value developments

38. 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.
39. 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.



40. 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.
41. 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.
42. 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.



Looking Forward

43. The Student Awards Agency for Scotland faces a number of challenges in 2008/09, which include:

- **Implementation of Student Entitlement Processing System (StEPS)** – SAAS aim to fully implement a new student payment processing system, StEPS, from the beginning of the 2009/10 academic year to replace the current system, GRASS. Although full implementation is not due for over another year, it is imperative that SAAS address the risks involved in moving from one system to another to ensure that a smooth transition occurs with minimal disruption to the operational activities of the Agency.
- **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 has 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. 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 SAAS is addressing this developing area as part of the 2008/09 audit.
- **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 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 SAAS 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. An interim report published in April 2008 made some initial recommendations and a final report was published in June 2008. We will monitor the Agency's response to the review and action taken as part of our 2008/09 audit.

- **Changes in Government policy** – During 2007/08, the Agency was at the forefront of major political decisions involving student funding, in particular the abolishment of the Graduate Endowment. It is important the Agency ensures that robust financial management processes are in place to ensure that any future policy changes that may occur will have a minimal impact on both the running costs and operational activities of the Agency.



Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
1.	<p>Overspend in 2007/08</p> <p>The Agency overspent its net operating budget by £42,000 in 2007/08.</p> <p>The Agency should continue to closely monitor its financial position throughout the year in order to prevent any further overspends.</p>	<p>The overspend was due to the costs of SAAS having to continue operating its GRASS system for a further year. This is a one-off exception that will not recur. SAAS are closely monitoring spend against budgets in 2008/09.</p>	Audrey Shimmons	Implemented
2.	<p>Closedown Procedures</p> <p>There are no desk instructions in place for closedown procedures for the preparation of final accounts.</p> <p>As the accounts are prepared primarily by one lead officer, should he become unavailable, there is a risk that the Agency may not meet deadlines for the preparation of accounts.</p> <p>SAAS should prepare a document detailing adequate closedown procedures in time for the preparation of 2008/09 financial year end and ensure that relevant staff are made aware of the procedures involved.</p>	<p>Comprehensive instructions will be produced for the 2008/09 audit.</p>	Stephen Blyth	End January 2009
3.	<p>Background Information for Audit</p> <p>In order to improve the final accounts audit process, we recommend that SAAS arrange to have relevant background information (e.g. working paper files) to accompany figures disclosed in the draft accounts for submission to audit in time for the start of the final audit process.</p>	<p>A working file will be produced and presented to Audit Scotland before the start of the 2008/09 audit.</p>	Stephen Blyth	Date of start of the 2008/09 audit



Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
4.	<p>Capitalisation of Staff Costs</p> <p>SAAS do not have a set policy for the capitalisation staff costs.</p> <p>There is a risk that if SAAS does not have relevant, consistent procedures in place it could result in the misstatement of tangible fixed assets on the balance sheet.</p> <p>SAAS should adopt and implement a suitable policy to ensure a consistent approach.</p>	A policy on capitalisation of salaries is being developed.	Audrey Shimmons	End September 2008
5.	<p>Aged Debtors</p> <p>The Agency's aged debtors listing shows a debit balance of £9,620 consisting of items relating to 2002/03.</p> <p>There is a risk that the Agency is not displaying sound financial management by having aged debtors for an extended period of time.</p> <p>The Agency should investigate these balances and arrange for write off where necessary.</p>	SAAS is investigating and will take any necessary, corrective action	Stephen Blyth	End September 2008
6.	<p>Audit Committee</p> <p>Audit Committee arrangements fall short of the requirements of the latest guidance issued by the Scottish Government.</p> <p>The new guidance states that the Audit Committee:</p> <ul style="list-style-type: none"> ▪ should have at least two non-executive directors; ▪ should meet a minimum of three times per year; and ▪ should not have senior executives as members. <p>The Agency should review its arrangements compared to the latest guidance and take steps to comply with best practice.</p>	The latest guidance has yet to be formally promulgated by SG. However, having had early sight of draft recommendations, SAAS will be asking its Management Board to review the composition and remit of the Audit Committee in accordance with best practice.	David Stephen	End November 2008



Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
7.	<p>Register of Interests</p> <p>The Agency does not have a mechanism for non-executive directors to confirm that they have no declared interests.</p> <p>There is a risk that conflicts of interest are not identified.</p> <p>In line with good practice, the Agency should establish a register of interests for non-executive directors.</p>	To establish such a register.	Linda Pender	End October 2008
8.	<p>Staff Vacancies</p> <p>The Agency currently has 23 (FTE) vacancies.</p> <p>There is a risk that the performance of the Agency may suffer if this level of vacancy remains, or increases. There is also a risk that overtime payments may increase as a result of staff increasing productivity to compensate for low staff levels.</p> <p>The Agency should address this issue as soon as practicable in order to reduce the number of vacancies.</p>	<p>In the short term, to fill essential posts by engaging temporary, agency staff. Thereafter to re-evaluate post numbers and staff skill sets in the light of the performance of the Agency's new operating system and recruit permanent staff accordingly.</p>	Audrey Heatlie	February 2009