

Student Awards Agency for Scotland

Report on the 2008/09 Audit

August 2009



 **AUDIT SCOTLAND**

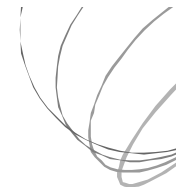


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Key messages

In 2008/09 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 the use of resources and aspects of performance management and governance. This report sets out our key findings.

Financial statements

We have given an unqualified opinion on the financial statements of SAAS for 2008/09. 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.

Financial position and use of resources

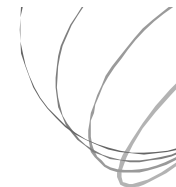
SAAS's net running costs in 2008/09 totalled £8.696 million against a budget of £8.278 million (including central Scottish Government charges) resulting in an overspend of £0.418 million. Net operating costs in 2008/09 included a provision of £0.943 million for costs relating to dilapidations on SAAS's leased property. The dilapidations were expected to be budgeted for in 2009/10 however a potential change of landlord prompted the review to be carried out earlier than anticipated. The overall Lifelong Learning budget was able to accommodate the cost in 2008/09. Capital expenditure in 2008/09 was £1.203 against a budget of £1.301 million resulting in an underspend of £0.098 million.

Scottish Ministers have agreed a resource budget for SAAS of £7.2 million for 2009/10. The total resource budget has been allocated with £6 million for operating expenditure and £1.2 million for capital charges. SAAS has also been allocated a capital budget of £0.4m for 2009/10. This gives a total budget of £7.6m. The Agency will need to ensure that robust budget monitoring takes place in 2009/10.

Governance and accountability

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 relating to SAAS running costs and capital expenditure operated satisfactorily during the year.

SAAS is also responsible for administering Student Awards expenditure which is accounted for within the Scottish Government's accounts. During the year the agency discovered that it had been the target of an organised fraud ring which was using false identities to claim student support. At the request of SAAS management, a review of its procedures for administering student awards has been undertaken by its Internal Auditors and an agreed action plan has been established to address the weaknesses identified. SAAS's Statement on Internal Control for 2008/09 reflects the satisfactory control arrangements in place in relation to running costs and capital expenditure and also refers to the fraud affecting student awards payments.



We examined the key financial systems which underpin the organisation's control environment. We concluded that financial systems and procedures relating to SAAS running costs and capital expenditure operated sufficiently well to enable us to place reliance on them. However we concluded that key controls and procedures within the student awards processing system operated at a level which enabled us to place only limited assurance on them. An action plan to address the weaknesses identified has been agreed with the agency.

Performance

SAAS's corporate plan for 2007 – 2010 was published in February 2008. The plan focuses on seven key areas including developing and maintaining high quality customer service and working with partners to deliver the government's "Smarter Scotland" strategy. SAAS's strategic priorities are underpinned by key performance targets. SAAS reported improvements in performance in 2008/09 against the majority of its targets when compared to 2007/08, for example in 2008/09 the Agency processed 81% of applications for awards within 12 days of receipt, compared to 72% in 2007/08.

Looking forward

The final part of our report notes some key risk areas and issues for SAAS going forward. We highlighted a number of national issues which affect all public sector bodies including SAAS, including the National Performance Framework and the introduction of Scotland Performs; the impact of international financial reporting standards; and the review of data handling arrangement in public bodies across Scotland. In common with other public sector bodies, SAAS also faces significant financial pressure. We will continue to monitor financial planning arrangements and SAAS's financial position.

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



August 2009



Introduction

1. This report summarises the findings from our 2008/09 audit of the Student Awards Agency for Scotland (SAAS). The scope of the audit was set out in our Audit Plan, which was presented to the Audit Committee on 23 February 2009. 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 an interim management report this year. An action plan has been agreed by management to address key issues.
3. Best value duties apply across the public sector and, in central government, best value is a formal duty on all accountable officers. Audit Scotland has adopted a generic framework for the audit of best value across the public sector and throughout this report we comment on aspects of SAAS's arrangements.

Exhibit 1: Framework for a best value audit of a public body





4. Our comments are made on the basis of information made available in the course of the annual audit. We do not make an overall best value judgement because we do not have not yet reviewed all relevant areas. Our intention is to build up the corporate assessment over time. This report is the first step towards that goal.
5. Another building block for our assessment of best value is the national study programme carried out by Audit Scotland on behalf of both the Auditor General for Scotland and the Accounts Commission. We mention the key findings from all relevant reports, and the implications for SAAS, throughout this report. Full copies of the study reports can be obtained from Audit Scotland's website, www.audit-scotland.gov.uk.
6. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by management and Board members of 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.



Financial Statements

7. In this section we summarise key outcomes from our audit of SAAS's financial statements for 2008/09 and the 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.

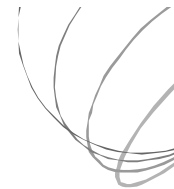
Our responsibilities

8. 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 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 within the financial statements; and
 - the regularity of the expenditure and receipts.
9. 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

10. We have given an unqualified opinion on the financial statements of SAAS for 2008/09.
11. The unaudited accounts were provided to us on 11 May 2009, supported by a comprehensive working paper package. However, SAAS were not able to provide some narrative sections of the unaudited accounts on 11 May 2009. This did not delay the audit significantly and we concluded our audit within the agreed timetable providing our opinion to the Audit Committee on 23 June 2009 as timetabled. Whilst we appreciate the significant efforts made by SAAS to provide good quality working papers as soon as possible after the year end, it would assist the audit process if full unaudited accounts are provided by the agreed date.
12. We noted that SAAS did not include sickness absence data, as required by the FReM, in the 2008/09 accounts as the data could not be provided by the Scottish Government's HR system. Also there were a number of items on its aged debtors listing relating to 2002/03 which had not been investigated or cleared. The latter issue was also reported in our report on the 2007/08 audit.

Action Plan 1, 2



Issues arising from the audit

13. As required by auditing standards we reported to the audit committee on 23 June 2009 on the main issues arising from our audit of the financial statements. The key issues were as follows:
14. **Overspend against Budget** - SAAS's draft accounts record an overspend of £0.418m on its running costs budget and an underspend of £0.098m on its capital budget, resulting in a net overspend of £0.32m. The reason for the overspend is that SAAS has made a provision of £0.943m for costs relating to dilapidations on its leased property (i.e. the costs required to restore the property to its original condition as required by the terms of the lease) earlier than anticipated. The dilapidations would have been budgeted in 2009/10; however a potential change of landlord prompted an earlier review to be conducted. SAAS is an executive agency of the Scottish Government's Education and Lifelong Learning Portfolio (ELL) and ELL's overall budget for the year was able to accommodate SAAS's overspend in 2008/09. **Resolution:** SAAS obtained confirmation from the Finance Team Leader within the Scottish Government's Education and Lifelong Learning Portfolio that the overall budget for the portfolio can accommodate the overspend.
15. **Statement on Internal Control** – The draft Statement on Internal Control (SIC) did not contain a reference to a significant internal control issue relating to student award applications. The expenditure relating to student awards is not included in the SAAS administration accounts. However the SIC guidance in the Scottish Public Finance Manual advises that the SIC applies to systems of internal control that support achievement of the body's policies, aims and objectives. As SAAS's aims and objectives include the administration of student awards, it was considered that the issue should be included in its SIC. **Resolution:** SAAS amended its Statement on Internal Control to include a reference to the significant issue relating to student awards.
16. **Register of Interests** – Our review of the Related Parties Transactions disclosures identified that, although SAAS has formal annual procedures to determine whether board members have had any material related part transactions with SAAS, it does not have equivalent procedures in place for senior managers. **Resolution:** SAAS agreed to circulate senior managers to obtain formal confirmation that there are no material related party transactions to report. Replies were available before the Accountable Officer signed the accounts. SAAS will adopt this as a standard year end procedure for future years.

Regularity

17. 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.



International financial reporting standards (IFRS)

18. As announced by the Chancellor in the 2008 Budget report on 12 March 2008 (budget report paragraph C103), Government departments and other public sector bodies will report using International Financial Reporting Standards (IFRS) from 2009/10. The Scottish Government announced on 25 April 2008 that all Scottish Government Departments, Executive Agencies, Health Bodies and Non-Departmental Public Bodies would be required to produce shadow IFRS based accounts for financial year 2008/09. This was to include a restated balance sheet as at 1 April 2008.
19. In terms of the audit of the IFRS opening balance sheet at 1 April 2008, there were two key dates to achieve as outlined below:
 - **28 November 2008** – opening 2008 IFRS-based balance sheet were to be presented to auditors for dry-run audit; and
 - **28 February 2009** – dry-run audit of opening balances was to be completed, resulting in a letter to management highlighting the work done, auditors' findings and areas for further work.
20. The opening balance sheet and supporting documentation were submitted by SAAS for audit for review by the deadline date of 28 November 2008. The restated balance sheet was supported by appropriate working papers.
21. Our report highlighted that further work was required in respect of the Payroll accrual for flexi-leave to ensure that the shadow IFRS accounts for 2008/09 and full IFRS accounts in 2009/10 are true and fair. SAAS were not able to accrue for the amount of flexi-leave due by staff because the HR systems did not routinely record this information. This information is provided by the Scottish Government HR shared services team. We understand that the information has subsequently been provided and intend to consider this as part of our review of the full shadow accounts.
22. SAAS have given us assurance that the above matter would be addressed and we will consider progress on these when we review the shadow accounts later in 2009.



Use of Resources

23. Sound management and use of resources (people, money and assets) to deliver strategic objectives is a key feature of best value. This section sets out our main findings from a review of SAAS's
- financial position; and
 - financial management.

Financial Position

Outturn 2008/09

24. SAAS is required to work within its resource budget set by the Scottish Government. In 2008/09 SAAS overspent its combined operating costs and capital budget by £0.32 million (see exhibit 2 below). The overspend against operating costs budget in 2008/09 was due to net operating costs including a provision of £0.943 million for costs relating to dilapidations on SAAS's leased property. SAAS did not expect to have to budget for the dilapidations until 2009/10; however a potential change of landlord prompted the review to be carried out earlier than anticipated. The overall Lifelong Learning budget was able to accommodate the cost in 2008/09.
25. SAAS's balance sheet at 31 March 2009 shows net assets of £2.332 million (2007/08 net assets of £3.195 million). The movement is caused by the reduction in the general fund, which has decreased by £0.863 million. The decreased general fund is due to net operating costs exceeding SAAS's funding for the 2008/09 financial year.
26. A summary of SAAS's actual outturn expenditure compared to the resource budget limits set by the Scottish Government is shown in exhibit 2 below:

Exhibit 2 – Performance against resource budget 2008/09 (£ million)

Limits	Budget	Actual Outturn	Difference
Operating	8.278	8.696	(0.418)
Capital	1.301	1.203	0.098
Total	9.579	9.899	(0.32)

Financial sustainability and the 2009/10 budget

27. Scottish Ministers have agreed a resource budget for SAAS of £7.2 million for 2009/10. The total resource budget has been allocated with £6 million for operating expenditure and £1.2 million for capital charges. SAAS has also been allocated a capital budget of £0.4m for 2009/10. This gives a total budget of £7.6m.



28. This is to be funded as follows:

Exhibit 3 – 2009/10 Resource Plan

Limits	Budget £ million
Operating	7.2
Capital	0.4
Total	7.6

29. Current projections forecast expenditure to be within budget in 2009/10. Efficiency savings of 2% per year from 2009/10 to 2010/11 are expected across the public sector and there are likely to be further challenges in the immediate future. Delivering efficiencies year on year, while absorbing pay inflation and other cost pressures (including recruitment and retention allowances), represents a significant challenge for the organisation.
30. Capital expenditure is budgeted at £0.4 million for 2009/10 (£1.301 million in 2008/09). The significant decrease in the original budgeted capital expenditure resulted from the expected completion of a new IT system for processing student awards. However, we understand that budget cover for additional capital expenditure will be sought in the autumn budget revision to complete the project.

National Studies

31. Audit Scotland published two national studies relevant to SAAS's use of resources. These were use of consultancy services and improving energy efficiency.

Use of consultancy services

32. The overall aim of the study was to review central government's use of consultancy services and to make recommendations to improve the public sector's use of consultants' knowledge, skills and resources to help deliver new services and initiatives quickly and expertly. The key findings were as follows:
- The public sector is strengthening the way it buys goods and services.
 - Central government does not have a clear strategy for its use of consultants or for linking use to its priorities or financial and workforce plans.
 - In most cases, central government buys consultancy services well but some improvements can be made.
 - Central government could improve how it manages consultancy projects through more consistent and formal evaluation of consultants' work and learning more from them.
 - Central government could make savings of up to £13 million a year through better planning and buying of consultancy services.



33. The report made specific recommendations for public bodies:

- confirm they have clear processes for approving and recording the use of consultants and monitoring progress, and reinforce these as required;
- plan their use of consultancy services when developing their forward work programme to ensure that consultants are used where their knowledge and skills bring greatest value for money;
- always evaluate the option to use consultants against the option to use their own staff;
- gather and share consistent information on the consultancy skills bought and why consultants are used;
- improve the quality of their invitations to tender through better and earlier discussion with consultants about their consultancy needs;
- increase the use of framework agreements where possible by ensuring that existing agreements are used and new ones developed as appropriate;
- select and use the most economical competition routes by using framework agreements, restricted competitions and closed tendering approaches when appropriate;
- evaluate the work of consultants more systematically and share findings from these reviews; and
- work closely with consultants to increase assurance on quality and make use of opportunities to learn from consultants and ensure knowledge transfer, where appropriate.

Improving energy efficiency

34. Audit Scotland assessed how councils, NHS bodies and central government bodies were improving energy efficiency in relation to buildings and transport use. This included examination of a range of issues including whether public bodies demonstrate commitment to improving energy efficiency; how public bodies are performing against their objectives and targets for improving energy efficiency; and if public bodies are delivering continuous improvement in this area. Initial findings were as follows.

- Funding has been made available by the Scottish Government and public bodies to improve energy efficiency. While energy consumption in buildings has fallen, spending on energy increased in the three years to 2006/07.
- There is a need for stronger leadership by the Scottish Government and within public bodies to improve energy efficiency and ensure that the necessary cultural and behavioural changes are made.
- A robust strategy is central to the coordination of activities to improve energy efficiency, however, there are inconsistencies in the quality of strategies being implemented.



- There is a lack of formal monitoring and reporting of progress in improving energy efficiency by public bodies and the Scottish Government.



Governance and Accountability

35. High standards of governance and accountability, with effective structures and processes to govern decision-making and balanced reporting of performance to the public, are fundamental features of best value. This section sets out our findings arising from a review of SAAS's arrangements.
36. Increasingly services are being delivered across the public sector through partnership working, sometimes involving complex governance and accountability arrangements. Best value characteristics also include effective partnership working to deliver sustained improvements in outcomes.

Overview of arrangements

37. This year we reviewed:
 - key systems of internal control;
 - internal audit; and
 - arrangements for the prevention and detection of fraud and irregularity, including standards of conduct.

Systems of internal control

38. 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.
39. In their annual report for 2008/09 the Scottish Government Internal Audit Division (the internal auditors) provided their opinion that based on the internal audit work undertaken during the year, they were only able to provide limited assurance in respect of the SAAS's risk management, control and governance arrangements. Although they provided substantial assurance on the 3 main areas audited they had some concerns over the weaknesses in control which allowed an organised external fraud to be perpetrated on SAAS applications.
40. The internal auditors provided substantial assurance on the arrangements for risk, control and governance over the Scottish Government's Corporate Systems.
41. As part of our audit we reviewed the high level controls in a number of the Agency's systems that impact on the Agency's financial statements. Our overall conclusion was that key controls relating to these systems were operating effectively.



42. 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.
43. We also reviewed the high level controls in the GRASS student awards processing system. This system does not impact on the Agency's financial statements as student awards payments are accounted for as part of the Scottish Government's Education and Lifelong Learning Portfolio although SAAS is responsible for the administration of the system. Our overall conclusion was that key controls were operating at a level which enabled us to place only limited assurance on them. We reported a number of areas where controls could be strengthened arising from both our own work and an Internal Audit review. An action plan was agreed with management. This will be followed up in 2009 to confirm that improvements have been made

Action Plan 3, 4

Statement on Internal Control

44. The Statement on Internal Control provided by SAAS'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 SAAS's approach to this.
45. The Statement on Internal Control noted that in 2008/09 SAAS discovered that it had been the target of an organised fraud ring who used false identities to claim student support and that SAAS is considering a number of measures to strengthen its procedures.

Internal Audit

46. 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 2008/09 audit we assessed whether we could place reliance on SAAS's internal audit function. We concluded that the Scottish Government Internal Audit Division operates in accordance with the Government Internal Audit Manual and therefore placed reliance on their work in number of areas during 2008/09, as we anticipated in our annual audit plan. This included reliance on aspects of internal audit's systems work to avoid duplication of effort.



Prevention and detection of fraud and irregularities

47. SAAS has a number of arrangements in place to prevent and detect fraud, inappropriate conduct and corruption, including policies and codes of conduct for staff and Board members. In respect of the student awards system, which SAAS administers, the arrangements in place were unable to prevent fraud during 2008/09. SAAS has an agreed action plan to address the weaknesses identified and we will review progress made towards implementing the agreed actions as part of our 2009/10 audit.

NFI in Scotland

48. In 2008/09 SAAS took part in the National Fraud Initiative (NFI) in Scotland. The Scottish Government has strongly supported the involvement of public bodies in the exercise, which is undertaken as part of the audits of the participating bodies. NFI brings together data from health bodies, councils, police and fire and rescue boards, and other agencies, 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. SAAS provided student awards data for the exercise. The NFI has generated significant savings for Scottish public bodies (£13 million from the 2006/07 exercise as at November 2008 and £37 million including previous exercises) but, if fraud or overpayments are not identified, assurances may be taken from internal arrangements for preventing and detecting fraud.
49. The NFI 2008/09 results (data matches) were made available to SAAS on 11 February 2009 via a secure web-based application. Participating bodies follow up the matches, as appropriate, and record the outcomes of their investigations in the application. We monitored SAAS's *involvement* in NFI 2008/09 during the course of the audit.
50. There were 89 data matches for SAAS, a first group of 35 matches and a second group of 54. This, however, is not a list of frauds. An action plan was developed by SAAS involving key officers from its Fraud Team. The Fraud Team were allocated specific responsibilities to review and investigate the matches.
51. From the first group of 35 matches, four frauds have been identified to date and four data matches are being investigated. Action will commence shortly on the 54 matches received in June. It is evident that the officers have taken a systematic and planned approach to investigating the matches.

National Studies

52. Audit Scotland published one national study relevant to SAAS's use of resources. This was a review of major capital projects.



Major capital projects

53. This report was the first systematic review of major capital projects in Scotland. It considered the progress of all 43 projects completed in the five years between April 2002 and March 2007, and a sample of current major projects. It looked at progress against cost and time estimates, quality specifications and project management in general. The main findings from the report were as follows:

- In general, the achievement of cost and time targets improved significantly as projects progressed.
- Early cost and time estimates at project approval stage were too optimistic for many major projects.
- Performance against cost and time estimates is better after contracts are 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 to demonstrate that they have delivered the expected wider benefits which originally justified the investment.
- Nine current projects examined had awarded the main construction contract, which should increase cost certainty. However, four projects had significant increases in estimated cost before reaching this stage.
- 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.



Performance

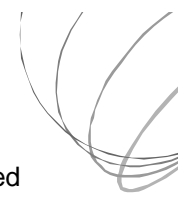
54. Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. Key features of best value include:
- setting a clear vision of what the organisation wants to achieve, backed up by plans and strategies to secure improvement, with resources aligned to support their delivery; and
 - a performance management culture which is embedded throughout the organisation and a performance management framework which is comprehensive and supports the delivery of improved outcomes.
55. In this section we comment on:
- SAAS's corporate plan;
 - performance against targets; and
 - performance management arrangements.

Vision and strategic direction

56. SAAS published its corporate plan for 2007 – 2010 in February 2008. The plan focuses on seven key aims:
- Develop and maintain high-quality customer service in all areas of SAAS's business.
 - Pay students monthly/pay loans for fees.
 - Successfully deliver Individual Learning Accounts Scotland (ILAS).
 - Improve and simplify communication.
 - Maintain effective energy and waste-management policies.
 - Attract new business.
 - Work with partners to deliver the Government's Smarter Scotland Strategy.
57. The delivery of the corporate plan aims will be particularly challenging given the tight financial constraints over the same period. This is an area we will keep under review during our appointment.

Performance overview

58. SAAS's strategic priorities are underpinned by key performance targets. SAAS reported improvements in performance in 2008/09 against the majority of its targets when compared to 2007/08.



59. SAAS reported improvements in its performance against the following key targets when compared against 2007/08:

Exhibit 4 – Key Targets where SAAS improved its performance in 2008/09

Targets	Performance 2007-2008	Performance 2008-2009
To process 50% of applications within 12 days of receiving them, 75% within 14 days, and 100% within 21 days	72% within 12 days 74% within 14 days 83% within 21 days	81% within 12 days 83% within 14 days 95% within 21 days
Average number of calendar days taken to process an application	7 days	6 days
To reply to 90% of written enquiries within 14 days of receiving them, and 100% within 21 days	90% within 14 days 93% within 21 days	96% within 14 days 98% within 21 days
Total number of complaints received	128	98
To reach an average unit cost of £34 to process each application based on relevant costs	£37.58	£37.12

60. However there were two key targets where SAAS reported a lower level of performance in 2008/09 when compared against 2007/08:

Exhibit 5 – Key Targets where SAAS performance level reduced in 2008/09

Targets	Performance 2007-2008	Performance 2008-2009
To answer all complaints within 14 days of receiving them	98%	96%
To respond to enquiries sent by email within 5 days of receiving them	92%	43%

61. SAAS has a further two key targets for which performance information could not be published due to ongoing problems with its telephony reporting system.

Performance management

62. The SAAS Board regularly reviews performance against the corporate plan through quarterly performance reports. The reports are discussed in Board meetings and action taken and reported to resolve any issues.

Risk management

63. There a number of key challenges and risks for the Board in delivering its corporate plan. The Board is responsible for identifying, managing and reviewing corporate risks and the effectiveness of actions identified to control these risks. The Board, which includes four independent members, has put in place systems for the identification and management of risk. The Board is responsible for overseeing risk management processes, monitoring the effectiveness of risk management policies and the reporting of significant matters to the Audit Committee.



64. The main risks are that SAAS commits to several initiatives and projects concurrently which may have financial and resource implications and that SAAS is not able to deliver a fully functional StEPs system (the replacement IT system for administering student awards) for the 2010/11 academic session. SAAS has put a range of measures in place to address these risks including a Change Management Programme and project management of StEPS using PRINCE 2 methodology.
65. The risk areas identified by SAAS are complex and comprise multiple issues which will require careful management to resolve. The impact of the provisions of the Public Sector Reform Bill may also mean for SAAS that new risks emerge as part of managing any reorganisation of functions and remit. We will continue to monitor the Agency's progress in each of these areas over the course of the next year.

Efficiency

66. SAAS did not have an efficiency savings target set as part of the Efficient Government Initiative.
67. In the next three years budget settlement public sector bodies are required to make a 2% per annum cash releasing efficiency savings and absorb pay and cost inflation. These will be challenging targets for bodies to achieve.
68. We will continue to monitor the financial position and the actions taken by SAAS to manage these risks.



Looking Forward

69. SAAS faces a number of challenges in 2009/10, which include:

- **Public Sector Reform** - The Public Sector Reform Bill proposes to abolish a number of bodies, merge some and create new bodies. These provisions could impact on SAAS's future strategy and plans and we will continue monitor the impact of these as part of our 2009/2010 audit.
- **Financial management and affordability** - The Scottish Parliament's Finance Committee recently published its report on the Scottish Government budget. The report noted that Scottish Government spending is set to decline in the next few years as UK public finances come under increasing pressure. Effective budget monitoring and reporting arrangements will be crucial to SAAS achieving its financial targets within tighter funding settlements. We will consider SAAS's financial management arrangements as part of our 2009/10 audit.
- **National Performance Framework** - The Scottish Government is continuing to develop its approach to performance management based on the National Performance Framework and local authority single outcome agreements. The National Performance Framework is an outcome-based approach that is publically reported on the Scottish Government's web site in the 'Virginia-style' model of performance measurement and reporting. 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 2009/10 audit.
- **Efficiencies and future funding** - Budgets for 2009/10 and the immediate future will need to be managed within a tighter funding regime. This includes no 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 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.
- **Best Value** – We will continue to monitor developments.
- **Data handling** – The Scottish Government carried out a review of data handling arrangements in Scotland 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 improved security of sensitive information. We will monitor SAAS's progress against recommendations due to be implemented during 2009/10.



- **IFRS** - The timetable for IFRS implementation requires that central government accounts in Scotland to become IFRS compliant with effect from the 2009/10 financial year. As part of the timetable for the implementation for IFRS, shadow accounts will require to be produced for 2008/09 for audit review by September 2009. These processes will require some additional resource to complete and it will be important that these issues are addressed early in 2009/2010.
- **Review of Governance responsibilities** - SAAS and the Scottish Government are undertaking a review in 2008/09. We will monitor developments in 2009/10.



Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
1	<p>A new FReM disclosure requirement came into effect in 2008/09 relating to sickness absence data. SAAS was unable to include this information in its 2008/09 accounts as the information could not be provided by the eHR system.</p> <p>We recommend that SAAS liaises with the Scottish Government to ensure that the required sickness absence information is available for 2009/10.</p>	e-HR system data now available for 2008/09 and will be available for 2009/10 as required.	Stephen Blyth	Completed for 2008/09 Aug 09
2	<p>During follow up of the matters arising from our 2007/08 audit, we noted that 7 out of 8 recommendations had been implemented. However our recommendation that Agency should investigate a number of items on its aged debtors listing relating to 2002/03 and arrange for write off where necessary has not yet been implemented.</p> <p>We recommend that this outstanding action from 2007/08 be addressed in time for the 2009/10 accounts.</p>	Various actions will be required working with our SEAS colleagues at Victoria Quay. Some items have already been resolved and we would expect to clear the balances in the near future	Fiona Watson	Dec 09
3	<p>During 2008/09 SAAS discovered that it had been the target of an organised fraud ring that used false identities to make fraudulent applications for student support. Upon discovery of the fraud, SAAS management requested a review of its vulnerability to fraud by its internal auditors and have subsequently agreed an action plan in response to the internal audit recommendations.</p> <p>We recommend that the agreed actions to improve controls over student awards payments are implemented in accordance with the agreed timescales.</p>	Action is ongoing in accordance with the agreed plan	Chief Executive	Ongoing



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4	<p>The fraud incident discovered in 2008/09 highlighted the governance and accountability arrangements that operate between SAAS and the Scottish Government's Education and Lifelong Learning portfolio (ELL). Expenditure on student awards does not appear in SAAS's financial statements. However, it is responsible for administering the payments and ensuring that appropriate controls are in place. ELL is responsible for policy-making and accountability. There is a risk that the present arrangements mean that senior managers are not being properly held to account by either the SAAS or ELL audit committees.</p> <p>We recommend the following: SAAS's Framework Document should be reviewed in order to clarify the accountabilities of SAAS and the Scottish Government in relation to student awards payments. Senior managers from SAAS should routinely attend the ELL audit committee.</p>	<p>The Framework Document has been reviewed and is likely to change to give SAAS responsibility to account for all expenditure including programme. The revised document has been circulated for comment with a return date of end August.</p> <p>The Framework Document will clarify responsibilities and whether SAAS will attend the ELL Audit Committee. It may be that other arrangement will satisfy the information and accountability arrangements for Audit Committees. In the meantime, the SAAS Chief Executive and/or Head of Finance with attend the ELL Audit Committee at their request.</p>	Chief Executive	Dec 09