

# The Student Awards Agency for Scotland

Report on the 2009/10 Audit to The Student Awards Agency for Scotland and the Auditor General for Scotland

27 August 2010

The logo for Audit Scotland, featuring a stylized blue 'A' with a checkmark inside a circle to its left.

AUDIT SCOTLAND

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Report on the 2009/10 Audit to the Student Awards Agency for  
Scotland and the Auditor General for Scotland

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# Key messages

In 2009/10 we looked at the key strategic and financial risks being faced by The Student Awards Agency for Scotland. 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 The Student Awards Agency for Scotland (SAAS) for 2009/10. 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

Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight. It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known. Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available. In the current economic climate difficult decisions will have to be made across the public sector about priority spending programmes.

SAAS's net running costs in 2009/10 totalled £7.913 million against a budget of £8.374 million (including central Scottish Government charges) resulting in a revenue underspend of £0.461 million. Capital expenditure in 2009/10 was £1.096 million against a budget of £0.474 million resulting in an overspend of £0.622 million. This meant that SAAS had a net overspend of £0.161million. The overspend occurred because of delays in the implementation of SAAS's new IT system, StEPs, until 2011-12. This decision was made so that a small number of issues highlighted in volume and performance testing could be resolved.

As StEPS was a major capital project, the delay meant that the depreciation charge was lower than the original budget. The delay also meant that overall costs of the project have increased which led to the overspend in the capital budget. The overall Lifelong Learning budget was able to accommodate the overspend in 2009/10. Scottish Ministers have agreed a resource budget for SAAS of £7.9 million for 2010/11. The total resource budget has been allocated with £6.2 million for operating expenditure and £1.3 million for depreciation and other capital charges. SAAS has also been allocated a capital budget of £0.4m for 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 for SAAS 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 relating to SAAS running costs and capital expenditure operated sufficiently well to enable us to place reliance on them.

SAAS is also responsible for administering Student Awards expenditure which is accounted for within the Scottish Government's accounts. In 2009/10 SAAS distributed over £500 million to students and education institutions to fund the maintenance and education of approximately 150,000 students. As in 2008/09 our audit work led us to conclude 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. Senior managers have made a number of improvements to the operating controls and we will review progress as part of the 2010/11 audit.

The Statement on Internal Control for 2009/10 reflects the satisfactory control arrangements in place in relation to running costs and capital expenditure and also makes reference to measures being taken to counter fraudulent activity.

## **Performance**

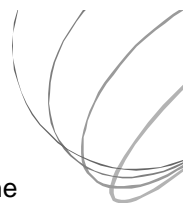
SAAS contribute towards several of the Scottish Government's strategic objectives through its core activity of processing student applications for awards, grants and loans. During 2010 SAAS reviewed its performance measures to ensure that going forward it has a good mix of performance indicators that measured all aspects of the business including: customer/stakeholder relationships, internal systems and processes, and delivering value for money.

Previous performance measures continued to be reported within the 2009/10 annual report. There was a decline in the performance in 5 of 7 of these measures. This was largely due a dramatic increase in student applications; SAAS received over 150,000 applications in the 2009/10 academic year which represents an increase of 7.5% over the previous year which itself was a record high.

## **Looking forward**

The final part of our report notes some key risk areas and issues for SAAS going forward. The continuing impact of the recession will mean that SAAS faces a challenge from increasing demand for higher education student support due to fewer employment opportunities. At the same time SAAS will face increasing pressure to control costs due to the public sector funding constraints facing the public sector.

The focus for SAAS in this environment must be to focus on maintaining and improving the quality of the service it provides whilst streamlining its processes to release efficiencies. This work will require SAAS to



work in partnership with Higher and Further Education institutions, The Student Loans Company and the Scottish Government's Lifelong Learning Directorate.

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

**Audit Scotland**

**August 2010**

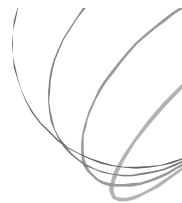


# Introduction

1. This report summarises the findings from our 2009/10 audit of SAAS. The scope of the audit was set out in our Audit Plan in accordance with the Code of Audit Practice, which was presented to the Audit Committee on 16 February 2010. 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. As well as highlighting the main points from the audit of the final accounts this report also summarises the main findings from our report upon SAAS's operational controls. Appendix A of this report sets out the key risks highlighted in this report and the action planned by management to address them.
3. Best value duties apply across the public sector and are 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 this has been further developed during 2009/10 with the completion of its bank of best value Toolkits which, although primarily designed for audit use, are available to all public bodies for reference.

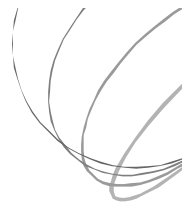
**Exhibit 1: Framework for a best value audit of a public body**





4. A linked development here has been the Scottish Government's work to refresh its 2006 best value Guidance for Public Bodies. This latter initiative, due for issue later in 2010, will result in clearer guidance to public bodies, and particularly those in the Central Government and Health sectors, on securing continuous improvement in performance, with due regard to the balance between cost and quality.
5. Throughout this report we comment on aspects of SAAS's arrangements in this area. 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 yet have enough evidence to conclude on all relevant areas. Our intention is to build up the corporate assessment over time. This report represents a further step towards that goal.
6. 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. Where these have a bearing on the activities, risks or performance of SAAS, we make reference to these reports in this document. Full copies of the study reports can be obtained from Audit Scotland's website, [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
7. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by management and 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

8. In this section we summarise key outcomes from our audit of SAAS's financial statements for 2009/10 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

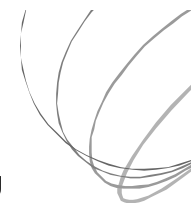
9. We audit the financial statements and give an opinion on:
- whether they give a true and fair view of the financial position of SAAS and its expenditure and income for the period in question
  - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
  - the consistency of the information which comprises the Management Commentary within the financial statements
  - the regularity of the expenditure and receipts.
10. 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
  - assessing whether disclosures in the statement are consistent with our knowledge of SAAS.

## Overall conclusion

11. We have given an unqualified opinion on the financial statements of SAAS for 2009/10.
12. As agreed the unaudited accounts were provided to us on 17 May 2010, supported by a comprehensive working paper package. We concluded our audit within the agreed timetable and provided our opinion to the Audit Committee on 1 July 2010.

## Issues arising from the audit

13. As required by auditing standards we reported to the audit committee on 1 July 2010 the main issues arising from our audit of the financial statements. The key issues were as follows:
14. Our audit work identified an overspend of £0.622 million on the capital budget and an underspend of £0.462 million within the revenue budget, resulting in a net overspend of £0.160 million. The overspend occurred due to the delay in the introduction of the new student awards processing system (StEPS). The delay meant the depreciation charge for 2009-10 was less than originally budgeted for



and capital expenditure was greater than anticipated. The overall budget in the Lifelong Learning Directorate was able to accommodate the cost in the 2009/10. 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 could accommodate the overspend.

## Regularity

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 her view on adherence to enactments and guidance. No significant issues were identified for disclosure.

## International financial reporting standards (IFRS)

16. UK Government departments and other public sector bodies prepared their accounts in accordance with International Financial Reporting Standards (IFRS) for the first time in financial year 2009/10. The transition arrangements to IFRS required bodies to prepare IFRS shadow accounts for 2008/09, including revised opening balances as at 1 April 2008.
17. During 2009/10 we were required to review the shadow accounts and report on them to SAAS by 11 December 2009. The purpose of this exercise was to consider whether the shadow accounts had been properly prepared and report any matters that might prevent them forming a reliable basis for the first set of IFRS based accounts in 2009/10.
18. The shadow accounts and supporting documentation for the 2008/09 financial year were submitted by SAAS for audit for review by the deadline date of 30 September 2009.
19. We made some recommendations for the production of the 2009/10 accounts, and considered progress on these when we audited the 2009/10 accounts. These are extracts from our report on the 2008/09 shadow accounts:
  - SAAS has not produced a 'Statement of Changes in Taxpayers' Equity' (SOCTE). This is one of the primary financial statements and must to be produced. However, SAAS did produce a SOCTE for the consolidation spreadsheet and so there is no impact upon the SG Consolidation process.
  - The cashflow produced for the financial statements should be amended to be consistent with the cashflow produced for the consolidation pack. Additionally, the Statement of Financial Position or the financial statements should be amended to split the "provision for liabilities and charges" between current and non-current liabilities as produced for the consolidated pack.



20. SAAS agreed to implement both points and we verified that this had been done as part of the audit work on 2009/10 financial statements.

## Use of Resources

21. 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.

### Financial Position

#### Outturn 2009/10

22. SAAS is required to work within its resource budget set by the Scottish Parliament. In 2009/10 SAAS overspent its combined operating costs and capital budget by £0.161million (see exhibit 2 below). The overspend against the total budget occurred because of delays in the implementation of SAAS's new IT system, StEPs, until 2011/12. This decision was made so that a small number of issues highlighted in volume and performance testing could be resolved.

23. As StEPS was a major capital project, the delay meant that the depreciation charge was lower than the original budget. The delay also meant that overall costs of the project have increased which led to the overspend against the capital budget. The overall Lifelong Learning budget was able to accommodate the overspend in 2009/10.

**Exhibit 2 – Performance against resource budget 2009/10 (£ million)**

Limits	Budget £M	Actual Outturn £M	Difference £M
Operating	8.373	7.913	0.460 (underspend)
Capital	0.474	1.096	0.622 (overspend)
<b>Total</b>	<b>8.847</b>	<b>9.009</b>	<b>0.162 (overspend)</b>

24. Once StEPS becomes operational it will become SAAS's primary IT system used for the distribution of student awards. It is SAAS's intention that StEPS will improve efficiency and rectify some of the problems found within the present system, GRASS, which has been in operation for several years beyond its original anticipated life. It was originally planned that StEPS would in be in operation in time for the 2008/09 academic year. However, delays in the project mean that it is now anticipated that the system will be ready for the 2011/12 academic year.

### Scotland's public finances

25. The Auditor General's report on *Scotland's public finances, published in November 2009*, contained an overview of the financial environment in Scotland and the pressures and challenges facing the



public sector. The aim of this report was to help to inform the debate on the future of public finances in Scotland. The key messages from this report were:

**Extract from Auditor General's report *Scotland's Public Finances***

*The public sector is coming under the greatest financial pressure since devolution.*

- Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight.
- The Scottish Government and the wider public sector need to work together to develop better activity, cost and performance information. This information is needed to enable informed choices to be made between competing priorities, and to encourage greater efficiency and productivity.

*The Scottish Government faces significant challenges in balancing the budget while also delivering on its commitments and meeting increasing demands for public services.*

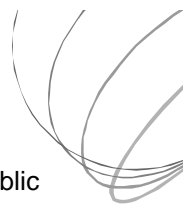
- It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known.
- In many cases, the public sector uses income from various sources to pay for services. Income levels anticipated before the recession are unlikely to be realised, reducing the amount available to spend.
- The Scottish public sector faces significant challenges in balancing its budget while also delivering on its commitments. Changes in Scotland's population and rising unemployment rates will increase demand for public services.
- Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available.

*In the current economic climate difficult decisions will have to be made about priority spending programmes.*

- The Scottish Government's annual budget is largely developed on an incremental basis which involves making adjustments at the margin to existing budgets. This approach is not suitable for budgeting in a financial downturn because it does not easily allow informed choices to be made about priorities, based on robust information about activity, costs and performance.
- The Scottish Parliament has an important role in scrutinising the government's spending plans. Better information linking spending to costs, activities and service performance, and a rolling programme of performance reviews, would support the Scottish Parliament in fulfilling this role.

## **Financial sustainability and the 2010/11 budget**

26. Scottish Ministers have agreed a resource budget for SAAS of £7.4 million for 2010/11. The total resource budget has been allocated with £6.2 million for operating expenditure and £1.2 million for capital charges. SAAS has also been allocated a capital budget of £0.4m for 2010/11. This gives a total budget of £7.8m. Current projections forecast expenditure to be within budget in 2010/11.



27. In general, efficiency savings of 2% per year from 2009/10 to 2010/11 are expected across the public sector. SAAS was exempted from this requirement in an agreement made between the Agency and the Scottish Government due to the increased workload faced by SAAS. However, SAAS is likely to face further challenges in the immediate future as a consequence of the emergency budget. 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.

## National Studies

28. Audit Scotland's Performance Audit Group has published the following report which is of direct relevance to SAAS:
29. **National Fraud Initiative: Making an Impact (published 20 May 2010):** A national detection exercise by Audit Scotland and other public bodies has identified fraud and error overpayments, savings and other outcomes worth more than £20 million. The report sets out the results of the 2008/09 exercise, which involved 74 bodies, including the Student Award Agency for Scotland. Data on deceased persons, public sector employees and pensioners, benefit applicants, council tax records, failed asylum-seekers, disabled parking permits, expired visas and students was compared to look for potential inconsistencies that might suggest fraud or error. These 'matches' were then followed up to identify fraud and error, stop overpayments and, where possible, recover the sums involved.

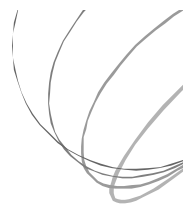


# Governance and Accountability

30. 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.
31. 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

32. This year we reviewed:
  - key systems of internal control
  - internal audit
  - arrangements for the prevention and detection of fraud and irregularity, including standards of conduct.
33. Our overall conclusion is that arrangements within SAAS are sound and have operated through 2009/10.
34. In common with most executive agencies in Scotland, SAAS use many of the Scottish Government's corporate systems such as the payroll and the general ledger systems. The Scottish Government external audit team evaluated the key systems within the Scottish Government and, to the extent that this evaluation allows, we placed reliance on the internal controls within those systems. The Scottish Government external audit provided us with an audit clearance letter setting out their overall assurance. Full assurance was provided on most of the Scottish Government's systems with the exception of the payroll and transport and subsistence systems where only partial assurance could be provided due to weaknesses within those systems. Additional, focussed audit work was conducted by the SAAS audit team into those areas of the accounts affected by these systems. No significant issues arose from this work.
35. 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.
36. In their annual report for 2009/10 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 able to provide substantial assurance in respect of the SAAS's risk management, control



and governance arrangements. In addition, they also provided substantial assurance on the arrangements for risk, control and governance over the Scottish Government's Corporate Systems.

## Statement on Internal Control

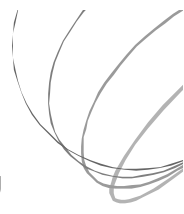
37. The Statement on Internal Control provided by SAAS's Accountable Officer reflected the main findings from both external and internal audit work. This recorded management's responsibility for maintaining a sound system of internal control and set out SAAS's approach to this.
38. The Statement on Internal Control noted that the organised fraud ring which had targeted SAAS in 2008/09 had still been in operation during 2009/10. These frauds were investigated internally by SAAS's own fraud team and reported to the Police and the Prosecutor Fiscal. However, despite on-going internal investigations, SAAS remain a target of this group. Despite discussions with the Procurator Fiscal and the Police and the submission of detailed evidence to the Police, no action has been taken against these individuals. SAAS has responded by taking focussed action to identify fraudulent claims made by the organised fraud ring to prevent further losses.
39. In addition to the frauds committed specifically by the organised fraud ring, other fraudulent claims were also discovered. The total amount of external fraud perpetrated in the year was approximately £102,000. Of this total, £45,000 was committed by the organised fraud ring. SAAS was able to prevent a further £1.5m of payments being made to and on behalf of the fraud ring.

## Internal Audit

40. 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 2009/10 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 2009/10, as outlined 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

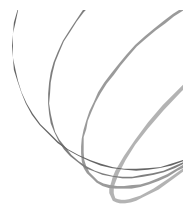
41. SAAS has a number of arrangements in place to prevent and detect fraud, inappropriate conduct and corruption, including policies and codes of conduct for staff and Board members. For example, all senior officers must formally disclose any potential conflicts of interest on to the e-HR system which is then checked by the Chief Executive.
42. In respect of the student awards system, which SAAS administers, the arrangements in place were unable to prevent fraud completely during 2009/10. However, SAAS did manage to significantly reduce the amount of fraud conducted by the organised fraud ring which has targeted SAAS for at



least the previous two years. Specific weaknesses were highlighted in our report on the operating controls with the student awards processing system. 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 2010/11 audit.

43. In general we would hope to place full reliance on the key controls operating within systems to ensure the audit process is conducted in the most efficient manner. However, we recognise that the student awards processing system is unique in many respects; in particular its reliance upon external factors means it is more vulnerable to fraud and overpayments.



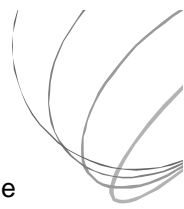


# Performance

44. 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
  - 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.
45. In this section we comment on:
- SAAS corporate plan
  - performance against targets
  - performance management arrangements.

## Vision and strategic direction

46. SAAS published its corporate plan for 2010/13 in June 2010. The plan focuses on SAAS's role in implementing the strategic objectives of the Scottish Government. In particular, SAAS contribute towards the following Scottish Government Strategic Objectives:
- tackling the Significant Inequalities in Scottish Life
  - our public services are high quality, continually improving, efficient and responsive to local people's needs
  - we reduce the local and global environmental impact of our consumption and production
  - our young people are successful learners, confident individuals, effective contributors and responsible citizens
  - we are better educated, more skilled and more successful, renowned for our research and innovation.
47. SAAS has identified the following activities that should enable them to meet it's objectives:
- deliver student support within the performance targets agreed with Ministers
  - ensure that SAAS responds strategically to the challenges of tightening public sector finances
  - implementation of staffing strategy to respond to the complex combination of the seasonal pattern of processing with the complex training and background knowledge required by caseworkers



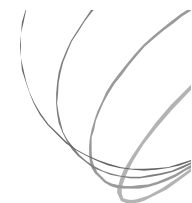
- refocusing of communications work to encourage early applications from students – with the aim of reducing the numbers applying immediately prior to course commencement
- increase resource to communications to offer additional support to schools with less experience of students progressing to higher education
- implementation of new Student Support IT system (StEPS)
- active engagement with Scottish Government to ensure policy changes have customer-focused implementation
- ongoing engagement with SDS to ensure effective partnership delivery of ILA 200 and ILA 500
- embed flexibility for Business Continuity to address dependency on Student Loans Company
- improve strategic relationships with Scottish Funding Council and the College and University sector
- improve procedures, systems and resources available to address the risk of organised fraud, improve efficiency and provide value for money from the public purse
- ongoing engagement with Scottish Government Health Department & NHS Education for Scotland (NES) to ensure effective partnership delivery of the Nursing & Midwifery, Dental, Audiology & Biomedical bursary schemes.

48. 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

49. SAAS reviewed their performance measures in 2010 to ensure that they had a good mix of performance indicators that measured all aspects of the business including; customer/stakeholder relationships, internal systems and processes, and delivering value for money. From 2010/11 the following measures will be used to report performance:

- 75% of student applications to be processed within 14 days and 90% of applications to be processed within 21 days
- average unit cost per application to be less than £40
- less than 1 in 1000 applications to generate a formal complaint to SAAS and less than 10 formal complaints to be upheld by Scottish Public Sector Ombudsman in the life of the corporate plan
- 100% of ministerial correspondence to be delivered within target
- 100% of invoices to be paid within 10 days
- 30% of opening debt to be recovered during the year.



50. In the 2009/10 financial year the following measures were used:

### Exhibit 3 – SAAS Performance Measures

Targets	Performance 2008/2009	Performance 2009/2010
To process 50% of applications within 12 days of receiving them, 75% within 14 days, and 100% within 21 days	81% within 12 days 83% within 14 days 95% within 21 days	62% within 12 days 65% within 14 days 75% within 21 days
Average number of calendar days taken to process an application	6 days	7 days
To reply to 90% of written enquiries within 14 days of receiving them, and 100% within 21 days.	96% within 14 days 98% within 21 days	100% within 14 days
Total number of complaints received.	98	114
To answer all complaints within 14 days of receiving them.	96%	88%
To reach an average unit cost of £34 to process each application based on relevant costs.	£37.12	£36.13
To respond to enquiries sent by email within five days of receiving them.	43%	27%

51. The above table shows there has been a decline in the performance in 5 of 7 of these measures. This was largely due a dramatic increase in student applications; SAAS received over 150,000 applications in the 2009/10 academic year which represents an increase of 7.5% over the previous year which itself was a record high. However, despite the increase in applications SAAS kept within their running costs budget which led to a reduced average processing cost per application.

## Performance management

52. 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

53. 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.

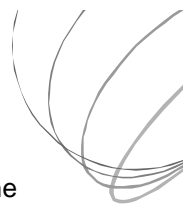


54. The main risk areas are:

- **Providing An Efficient Service** - One of the major changes faced by senior management is to maintain service whilst faced with increasing demand. They will need to do this whilst simultaneously controlling costs as SAAS's budgets are likely to remain static, if not decrease in real terms for the foreseeable future.
- **Reducing Overpayments, Errors, and Fraud** – The existence of the organised 'Fraud Ring' has highlighted the need for SAAS to remain vigilant against the risk of fraud and irregularity and to continue to improve their managerial controls.
- **Implementation Of StEPS** – The ongoing delays in the implementation of this project may begin to impact upon service provision. It also has serious cost implications as the project costs are already much greater than were originally anticipated and are likely to rise if the project is further delayed.
- **Budget Monitoring** – As previously noted SAAS spent above its capital budget in the financial year. This has highlighted the need for SAAS and ELL to manage the budgets more effectively.
- **Working In Partnership** – SAAS already work closely with other publicly funded organisations to achieve their objectives. However, SAAS will need to continue to work closely with other organisations to avoid duplication of effort as the need to control costs and provide more efficient services becomes more critical.

## Improving public sector efficiency

55. The Audit Scotland report *Improving public sector efficiency* was published on 25 February 2010. It provides a position statement on the first year (2008/09) of the Efficient Government Programme (the Programme), which aims to deliver £1.6 billion efficiency savings over the three years to 2010/11. It also gave an update on how the Scottish Government and public bodies have addressed the recommendations made in the 2006 report about the previous efficiency programme.
56. The report found that Scottish public bodies reported more efficiency savings than the Government's two per cent target. But there are serious financial challenges ahead – the biggest since devolution – and making the required savings through efficiency will become increasingly difficult.
57. The report recommended that to deal with reduced future funding and increase savings public bodies need to consider fresh approaches to improving efficiency and productivity. They must take a more fundamental approach to identifying priorities, improving the productivity of public services, and improving collaboration and joint working.
58. The drive to improve efficiency and productivity is not just an exercise for managers and service providers. It requires strong leadership and engagement from the very top of public bodies. Leaders and senior decision-makers within an organisation have a responsibility to check, challenge, and



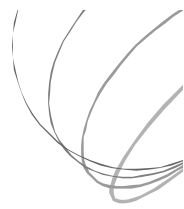
monitor and support their organisations in delivering efficiency and productivity improvements. The report's recommendations highlighted areas that public bodies' key decision makers should look at to assess their organisation's development and to challenge existing arrangements (see below).

**Extract from Audit Scotland report *Improving public sector efficiency***

*In order to improve the delivery of efficiency savings public bodies should:*

- ensure they have a priority-based approach to budgeting and spending
- continue to improve collaboration and joint working, overcoming traditional service boundaries
- consider using alternative providers of services, if these providers can improve the efficiency, productivity or quality of services
- improve information on costs, activity, productivity and outcomes, including setting baselines to measure performance against
- give greater urgency to developing benchmarking programmes
- maintain the momentum of activities and initiatives to improve purchasing and asset management and extend shared services
- ensure there is a joined-up approach to efficiency savings across the public sector, avoiding duplication
- ensure that plans are in place to deliver savings, clearly setting out what action will be taken, the level of savings to be delivered and how these will be measured
- strengthen the involvement of front-line staff, service providers and users in redesigning public services
- reduce reliance on non-recurring savings to meet financial targets and generally use these as part of a wider and longer term strategy
- report efficiency savings consistently.

- 59. To support these high-level recommendations, Audit Scotland, the Northern Ireland Audit Office and the Wales Audit Office have drawn on their combined experience to develop a detailed good practice checklist. The checklist is intended to promote detailed review and reflection and, if necessary, a basis for improvement. We recommend that those responsible for leading efficiency and improvement work should consider assessing themselves against each question, and recording the results.
- 60. SAAS did not have an efficiency savings target set as part of the Efficient Government Initiative.
- 61. The key challenge for SAAS is to run a continuously improving public service while responding to the competing pressures of a severely tightening environment for public sector finances and an increased number of students applying for higher education places and student support due to the current economic state of the country.
- 62. We will continue to monitor the financial position and the actions taken by SAAS to manage these competing pressures.



# Looking Forward

63. SAAS faces a number of challenges in the coming years, 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 2010/2011 audit.
- **Financial management and affordability** - 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 2010/11 audit.
- **Efficiencies and future funding** - To deal with reduced future funding and increase savings fresh approaches to improving efficiency and productivity must be considered, taking a more fundamental approach to identifying priorities, improving the productivity of public services, and improving collaboration and joint working. The challenge for SAAS is to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives.
- **Best Value** - The concept of best value is seen as a key driver of modernisation and improvement in public services. Audit Scotland has continued its commitment to extending the best value audit regime across the whole public sector and significant development work has taken place over the last year including the finalisation of its best value toolkits. This has been matched by the Scottish Government's commitment to refreshing its Best Value Guidance for Public Bodies. SAAS should continue to respond to this important initiative as it develops.



# Appendix A: Action Plan

## Key Risk Areas and Planned Management Action

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
1	<b>Overspend against Budget:</b> Our audit work identified an overspend of £0.622m on the capital budget. This has highlighted the need for SAAS and ELL to manage the budgets more effectively.	The increased capital expenditure was forecast from the beginning of the year and it is possible to update budget requirements as part of the mid-year Autumn & Spring Budget revision. SAAS will request that ELL vire budgets to align with more up to date forecast information.	Head of Finance	2010/11
2	<b>Implementation Of StEPS:</b> The ongoing delays in the implementation of this project may begin to impact upon service provision. It also has serious cost implications as the project costs are already much greater than were originally anticipated and are likely to rise if the project is further delayed.	The implementation of StEPS was delayed to the academic year 2010/11 to prevent any impact on service provision and delivery and this has been achieved. The system is planned to be ready for the 2010/11 academic.	Head of Information Systems & Operational Policy	April 2011
3	<b>Reducing Overpayments, Errors, and Fraud:</b> The existence of the organised 'Fraud Ring' has highlighted the need for SAAS to remain vigilant against the risk of fraud and irregularity and to continue to improve their managerial controls.	An action plan was agreed with Audit Scotland as part of their report on the SAAS operating controls. This action plan will be implemented by the agreed dates by the appropriate responsible officers.	Chief Executive	Per the action plan