

# Appendix C

# Student Awards Agency for Scotland

## Annual report on the 2012/13 audit



Prepared for Student Awards Agency for Scotland and the Auditor General for Scotland  
June 2013

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Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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# Key Messages

## 2012/13

We have given an unqualified opinion that the financial statements of the Student Awards Agency for Scotland (SAAS) for 2012/13 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.

SAAS's total budget for 2012/13 was £8.212 million for revenue expenditure and £0.718 million for capital expenditure. SAAS reported actual operating costs of £8.257million (excluding Scottish Government notional costs £0.359m) and capital expenditure of £0.523 million. The net outturn, against total budget, was an underspend of £0.150 million. However our audit found that SAAS had incorrectly capitalised £195k of staff costs. The financial statements were amended to correct the error resulting in SAAS exceeding the revenue budget by £0.045 million.

Overall SAAS's arrangements for the prevention and detection of fraud were satisfactory during 2012/13. From our review of the key controls within the main financial systems, we concluded that SAAS's systems of internal control were operating adequately.

SAAS commissioned an Independent review in 2012/13, which was in response to widely reported issues concerning service levels at SAAS in November 2012. The Review (published in May 2013) focussed on service delivery, but also made a number of recommendations about SAAS's level of resourcing and some aspects of the corporate governance framework. SAAS is working with the Scottish Government to respond to these recommendations. In addition, the Scottish Government has agreed an additional £2 million of funding to enable SAAS to recruit more staff and deliver a number of service improvements. The future funding of the Agency will be reviewed, as usual, in line with the Spending Round.

## Outlook

We have considered the financial sustainability of SAAS on the basis of its financial position and budget over the remainder of the current spending review period. SAAS is part way through a two year plan to relocate its operations to new offices. SAAS and the Scottish Government have estimated the cost of the move to be £1.4 million. The organisation is IT dependent and the student awards system requires continual support and on-going development to reflect changes to current policies and regulations. Even with an increase in funding, the financial position going forward will be challenging and SAAS should continue to closely monitor expenditure to identify and address any emerging budget pressures or projected overspends at an early stage.

# Introduction

1. This report is the summary of our findings from the 2012/13 audit of the Student Awards Agency for Scotland (SAAS). The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinions (i.e. on the financial statements) and conclusions on significant issues arising.
2. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). This sets out the wider dimensions of the public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance.
3. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management. The management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
4. This report has been prepared for the use of SAAS and no responsibility to any third party is accepted.
5. Appendix A is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that SAAS understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
6. This report is also addressed to the Auditor General for Scotland and will be published on our website after consideration by the Audit Committee.

# Financial statements

## Conduct and scope of the audit

7. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan presented to the Audit Committee on 4 February 2013, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
8. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2012/13 agreed fee for the financial statement audit was disclosed in the Annual Audit Plan and as we did not have to carry out any additional work outwith our planned audit activity this fee remains unchanged.

## Audit opinion & accounting issues

9. We have given an unqualified opinion that the financial statements of Student Awards Agency for Scotland for 2012/13 give a true and fair view of the state of the body's affairs and of its net expenditure for the year. The audit opinion was formally issued and signed on 25 June 2013.
10. We received the unaudited financial statements on 20 May 2013 in accordance with the agreed timetable. The working papers were of a high standard and the staff provided good support to the audit team. We completed our on-site field work on 31 May 2013. SAAS is required to follow the 2012/13 FReM and we can confirm that the financial statements have been properly prepared in accordance with these accounting requirements.

## Significant findings (ISA260)

11. During the course of the audit we identified a number of significant issues regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties.
12. **Capitalisation of IT staff costs** - Our review of intangible assets identified expenditure on IT staff costs, totalling £377k, which had been capitalised and disclosed as In House Developed Software. Discussions with SAAS officers established that this expenditure related to four projects to further develop and enhance the StEPS system. Its annual 'Change of Session' project involved a significant re-write of the StEPS rules engine to reflect significant changes to the Student Support package. The capitalised cost totalled £195k and officers explained that this development work was essential in order that StEPS remained 'fit for purpose'.

13. International Accounting Standard (IAS) 38 has strict criteria for the recognition of subsequent expenditure on an intangible asset which requires an assessment of the technical feasibility of completing the asset; a clear intention to complete and use the asset; a demonstration that the asset will be of use to the body' adequate resources are available to complete development of the asset and the body must be able to reliably measure the expenditure incurred.
14. SAAS had not established robust procedures to accurately record IT staff time attributable to each project. Officers also confirmed that 3 of the 4 projects were not complete as at 31 March 2013.
15. **Resolution** -The matter was satisfactorily resolved by SAAS agreeing to charge the 2012/13 Change of Session costs to the Statement of Comprehensive Income and Expenditure. We accept that the expenditure relating to the remaining three projects, totalling £182k, satisfy the criteria set out in ISA 38 and can therefore be capitalised. However the capital expenditure incurred at 31 March 2013 has been reclassified as Assets under Construction and will only be re-categorised when the projects are completed. The required changes were correctly incorporated in the final version of accounts.
16. **Understatement of the Non-Current Asset Register (NCAR)** - Our review of the NCAR and discussions with the Head of Finance established that the GRASS system was still in use, despite being replaced by the StEPS system in April 2011. Assets which are fully depreciated but still in use should be retained on the NCAR and the Statement of Financial Position. The GRASS system, which was fully depreciated, was correctly included in the financial statements. However, the NCAR did not have a record of the GRASS system. This had no impact on the financial statements but was an issue in terms of managements' ability to discharge their responsibilities for the control and safe custody of non current assets.
17. **Resolution:** SAAS believe the NCAR software is unable to record fully depreciated assets which are still in use. SAAS have agreed to investigate the matter, with Scottish Government colleagues, and ascertain if it is possible to record the details of the GRASS system and ensure that totals for original purchase costs and accumulated depreciation reconciled to the financial statements presented for audit.

**Refer action point no 1**

## **Scottish Government accounts consolidation pack and Whole of Government accounts information.**

18. SAAS is required to complete a Scottish Government Consolidation pack which we are required to audit. This pack includes a section to provide information for the whole of government accounts (WGA), which are the consolidated financial statements for all branches of government in the UK. We are not required to audit this section of the pack as SAAS falls below the de-minimis level for audit of £100m of expenditure.

19. SAAS is required to submit an audited consolidation pack to the Scottish Government prior to the deadline of 21 June 2013. We can confirm that SAAS has met this submission date. *This part of the audit is on going and we anticipate that the audited return will be submitted by the target date.*

## Financial position

### 2012/13 Outturn

20. The main financial objective for SAAS is to ensure that the financial outturn for the year is in line with the resource budget allocated by Scottish Ministers. The Scottish Government sets a resource budget for the year which originates from the spending review settlement and is subsequently approved in the Budget Bill. During the year, revisions are approved in the autumn and spring budget revisions. SAAS is expected to manage its budget in accordance with its framework document and the Scottish Public Finance Manual (SPFM) and in tandem with its portfolio.
21. SAAS operated within the total resource budget for 2012/13 of £8.930m as detailed in Table 1 below.

**Table 1: Resource Budget**

	Initial Budget (£'m)	Final Budget (£'m)	Actual Outturn (£'m)	Under / (Over) spend
Resource DEL	8.400	8.930	8.780	0.150

Source: Student Awards Agency for Scotland Annual Accounts 2012-13, and Scottish Budget documents for 2012-13

22. The budget for operating costs during 2012/13 was £8.212m, after excluding Scottish Government notional charges. Revisions to the draft financial statements, to reflect the agreed charge for previously capitalised costs, meant that SAAS reported a net revenue outturn of 8.257m. This exceeded the approved budget by £45k and our understanding is that SAAS's sponsoring portfolio, Learning & Justice has the capacity to absorb from the portfolio's budget. The capital outturn was £0.523m against a budget of £0.718m.

### 2012/13 financial position

23. The statement of financial position shows a net asset position of £1.839m at 31 March 2013 (£2.192m for 31 March 2012). The decrease in the net assets has been caused by a number of factors:
- A decrease in total assets due to depreciation and amortisation charges
  - An overall decrease in net current liabilities



## Financial planning

24. The Spending Review of 2011 set SAAS's baseline budget for the following three years up until 2014-15 as set out in Table 2.

**Table 2: Baseline budget**

	2012/13	2013/14	2014/15
	£'m	£'m	£'m
Baseline budget	8.4	8.7	8.7
Funding from SDS for ILA 200 admin	0.4	0.4	0.4
Additional Funding		2.0	

Source: Scottish Spending Review 2011 and Draft Budget 2012/13

25. Most government departments and agencies are experiencing average decreases in funding over the course of the Spending Review. The Scottish Government has agreed to provide SAAS with additional funding in 2013/14 of £2m to recruit more staff and invest in the Agency's future. The funding was in response to the key messages emerging from the Independent Review of SAAS.
26. SAAS is a service orientated organisation with a high proportion of staffing costs. The additional funding agreed by the Scottish Government should help SAAS to address some fundamental resourcing issues. However, the £2m funding agreed by the Scottish Government is for 2013/14 and future budget needs are being considered as part of the 2013 Spending Round. SAAS will have to continue to manage its resources very carefully going forward, to ensure that it can provide a level of service that is in line with customer expectations. In this economic environment, it will be challenging and performance against strategic objectives will have to be carefully managed.

## Corporate governance and systems of internal control

### Overall governance arrangements

27. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements. We considered the outcome of internal audit's review of governance arrangements; the key messages contained in the Independent Review of SAAS and evidence gathered during the course of our final audit. We concluded that SAAS had adequate governance arrangements but that there is scope to make improvements in a number of areas as outlined below.

### Processes and Committees

28. During 2011/12 SAAS underwent significant restructuring in response to customer surveys and its own internal staff survey. A new Chief Executive was appointed to

SAAS on 31 March 2012 and a major task during 2012/13 was to embed the new structure.

29. The Board continued to meet quarterly during 2012/13 and we understand that the frequency of meetings will increase in 2013/14. The governance statement indicates that a Skills analysis is underway to identify skill and knowledge gaps at the board level. Recruitment of additional non executive board members has commenced and SAAS has now appointed an independent audit committee member with public sector finance experience.
30. Our discussions with officers confirmed that the Board and the Audit Committee had not undertaken a formal annual review of their effectiveness. We would recommend each committee undertakes a review, at least every two years, to inform the Accountable Officer's assessment of overall governance arrangements.

**Refer action point no 2**

## Governance Statement

31. Arrangements for preparing the 2012/13 Governance Statement continue to evolve and we are pleased to report that SAAS senior management now submit a formal letter of assurance to the Accountable Officer. This document confirms that managers have completed an internal control checklist for their area of responsibility; have documented any matters which should be brought to the attention of the accountable officer and confirms whether controls are operating well in relation to each manager's area of responsibility.
32. SAAS commissioned an Independent Review in November 2012, following concerns about the service levels of processing some student applications. The Review was published in May 2013 and made a number of recommendations about service delivery, resourcing and the SAAS's governance arrangements.
33. We are satisfied that the Accountable Officer has considered the outcome of the Independent Review when preparing the Governance Statement and that there is a clear commitment to implement the majority of the key recommendations appearing in the Review. We are pleased to note that SAAS has recently recruited a Governance Manager to take the lead on planned improvements to the Governance framework. We would encourage SAAS to consider the key messages and recommendations in the Review and take appropriate action to ensure that the Board and Audit Committee are discharging their responsibilities.
34. SAAS should also engage with internal audit on any planned changes to the Governance framework and we would recommend that internal audit undertake a more active role in the preparation of the Governance Statement.
35. We acknowledge that Internal Audit have experienced resourcing issues during 2012/13. However, we would recommend that Internal Audit reports are completed and

cleared earlier in the process so issues identified can be considered by the Audit Committee prior to approving the Governance Statement.

### Refer action point no 3

## Accounting and internal control systems

36. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
37. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.
38. Internal audit is an important element of SAAS's governance structure. The Scottish Government external audit team reviewed the Scottish Government's Internal Audit Division who also acts as SAAS's internal auditors. They concluded that IAD operates in accordance with the Government's Internal Audit Manual. We have therefore been able to place reliance on IADs review of SAAS's arrangements for Fraud Prevention, Detection and Investigation. This has not only avoided duplication of effort but also enabled us to focus on other key risk areas.
39. In the interests of an efficient audit approach we also rely on assurances received from the auditor of the Scottish Government on work performed on the Scottish Government Central systems that are used by SAAS. This approach ensures we are delivering an efficient co-ordinated audit that avoids unnecessary duplication and expense.
40. The central systems assurance letter provided by the auditor of the Scottish Government provided unqualified audit opinions on both the payroll and financial services assurance reports. However the key findings section relating to payroll drew attention to weaknesses in segregation of duties where staff had access rights to both the HR and Payroll systems. Other weaknesses were identified in relation to Travel and Subsistence and Scottish Government management have agreed to take action on the points raised.
41. We undertook a review in 2011/12 of operational controls in place around the student awards processing system (StEPS). It was our intention to complete a follow up review in 2012/13 of progress made by SAAS in implementing agreed actions. This work was to have been supported by detailed testing of controls and procedures. However as a result of the Independent Review of SAAS which placed demands on staff the implementation of most of the agreed actions has now been delayed until 2013/14.

## Prevention and detection of fraud and irregularity

42. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. SAAS is unusual in that the organisation has a dedicated Fraud Team. In our opinion SAAS's overall arrangements for the prevention of fraud are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely. We provide some further comment on the SAAS Fraud Team in the following section.

### NFI in Scotland

43. Audit Scotland has coordinated another major counter-fraud exercise working together with a range of Scottish public bodies, external auditors and the Audit Commission to identify fraud and error. These exercises, known as the National Fraud Initiative in Scotland (NFI), are undertaken every two years as part of the statutory audits of the participating bodies. The latest exercise started in October 2012 but is not due to report until May 2014.
44. The NFI works by using data matching to compare a range of information held on bodies' systems to identify potential inconsistencies or circumstances that could indicate fraud or error which are called 'matches'. Where matches are identified these are made available to bodies to investigate. In the case of SAAS, data matches are made between student records and Home Office Asylum and Visa data.
45. We have completed a preliminary review of the 2012/13 data matching exercise and are pleased to note SAAS's commitment to the exercise; that the exercise has been satisfactorily planned and adequately resourced. The 2012/13 exercise resulted in 58 matches (151 matches previous exercise) and SAAS is of the view that the lower number of matches is due to an improvement in the quality of Home Office data. Seven potential frauds have been identified to date and more may emerge. Officers have indicated that matching to other data would be desirable (for example, the Department for Work and Pensions).
46. In addition to investigating data matches against Home Office records, the SAAS Fraud Team has had to respond to requests from other organisations where data matches have been made against SAAS student records. Our understanding is that SAAS has had to respond to over 300 requests from local authorities which have placed additional demands on the organisation and the Fraud Team in particular.
47. We are pleased to note that resourcing for the Fraud Team has improved and that further staff are expected to be recruited. Team members have now successfully undergone training and certification to undertake interviews 'under caution'. SAAS are now able to prepare and submit cases directly to the Procurator Fiscal, thereby speeding up the process for pursuing cases of fraud. We are aware that IAD have recommended that SAAS now develop and implement formalised training for the Fraud team. We would endorse this recommendation.

48. We will undertake a final review of the 2012/13 NFI data matching exercise and our findings will be incorporated in Audit Scotland's national report, to be published in May 2014. However, two issues have emerged which are worthy of comment.
49. We established that SAAS accepts photo copied documentation from students applying for support and that this is a long standing policy. This increases the risk of fraudulent applications and two of the seven frauds identified through the NFI exercise appear to have involved photocopied (counterfeit) visas. We would recommend that SAAS request sight of original immigration documentation or develop controls to further mitigate the risk presented by photocopied documentation.

**Refer action plan no 4**

50. The NFI exercise is clearly of value to SAAS. However, the NFI page on SAAS's website is not prominently displayed (the search box needs to be populated to locate it). There was no information on the NFI page about how successful the exercise had been for SAAS; the number of data matches; successes in uncovering fraud and the implications for those submitting fraudulent applications. A broader web search for SAAS and the NFI exercise found that most web links were to the National Reports issued by Audit Scotland. We believe SAAS is not fully capitalising on the deterrent factor the NFI exercise may have. We would recommend that SAAS more widely publicises the organisation's key role in the NFI exercise and the success this has had in detecting and prosecuting fraud.

**Refer action plan no 5**

## **Standards of conduct and arrangements for the prevention and detection of corruption**

51. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. No issues have been identified by us for inclusion in this report.

## **Acknowledgements**

52. We would like to express our thanks to the staff of Student Awards Agency for Scotland for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.

# **Appendix A: Action Plan**

## Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	17	<p><b>Non current asset register - custodial controls</b></p> <p>The non current asset register should record all assets which are still in use, even if fully depreciated. This is to facilitate the safe custody of all assets under the control of management and ensure that the NCAR reconciles to the underlying financial records.</p> <p><i>Risk: Failure to record all assets on the NCAR can introduce a risk of loss, particularly where assets are susceptible to misappropriation.</i></p>	<p>The GRASS system was removed from the asset register in March 2011 when fully written down. We will work with SG colleagues to try and re-instate as a "non-depreciating asset" as data is still held on the system and continues to be used.</p>	Stephen Blyth, Finance Manager	Sep 2013
2	30	<p><b>Committee review of effectiveness</b></p> <p>The Independent Review of SAAS noted that governance arrangements operating during 2012/13 did not produce effective resolution of critical issues. The Management Board and the Audit Committee should undertake an annual review of their effectiveness to ensure</p>	<p>The Governance Statement includes a statement to this effect and advises that reviews will take place in 2013/14</p>	Roz McCracken, Governance Manager	March 2014

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>that they are fit for purpose.</p> <p><i>Risk: Key committees which are ineffective can weaken the overall governance framework of the organisation and its response to critical events.</i></p>			
3	35	<p><b>Internal Audit</b></p> <p>Discussions with senior officers confirmed that the completion of the Governance Statement,, which requires internal audit reports to inform, took a little longer as reports from IAD were late in the financial year and in draft form.</p> <p><i>Risk: the Governance Statement may not properly reflect the organisation's governance and risk management arrangements.</i></p>	<p>This was an unusual year for SAAS and IAD.</p> <p>The internal audit programme was delayed, partly as a result of the involvement of IAD in the Independent Review of SAAS and three audits took place concurrently, near the end of the financial year.</p> <p>We will agree an audit programme for 2013/14 that works for both SAAS and IAD.</p>	Ros McCracken, Governance Manager	Aug 2013
4	49	<p><b>Fraudulent applications - photocopied documents</b></p> <p>Our initial review of the NFI exercise, and discussions with officers, established that SAAS continues to accept</p>	<p>We will consider what steps we can take to strengthen the evidence required to prove immigration status.</p>	Senior Management Team	March 2014

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		<p>photocopied documents as evidence of immigration status and identity.</p> <p><i>Risk: Photocopied documents are more susceptible to counterfeiting and increase the risk of fraudulent applications.</i></p>			
5	50	<p><b>National Fraud Initiative</b></p> <p>The NFI data matching exercise is a valuable additional tool for detecting and preventing fraud. However, SAAS does not widely publicise its role in the NFI exercise and its successes in identifying fraud.</p> <p><i>Risk: SAAS is not maximising the deterrent value of the NFI exercise</i></p>	We will publicise the results from the current NFI when complete and published by Audit Scotland.	Graham Philp, Fraud Manager	May 2014