

Appendix C

Student Awards Agency for Scotland

Annual report on the 2013/14 audit



Prepared for Student Awards Agency for Scotland and the Auditor General for Scotland
June 2014

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.

Contents

Key Messages	4
2013/14	4
Outlook.....	4
Introduction.....	5
Financial statements	6
Conduct and scope of the audit.....	6
Audit opinion & accounting issues	6
Key findings (ISA260).....	6
Scottish Government accounts consolidation pack and Whole of Government accounts information.	7
Financial position	7
Corporate governance and systems of internal control.....	9
Appendix 1: Action Plan.....	13
Key Risk Areas and Planned Management Action	13

Key Messages

2013/14

We have given an unqualified opinion that the financial statements of the Student Awards Agency for Scotland (SAAS) for 2013/14 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 2013/14 was £11.263 million for revenue expenditure and £0.417 million for capital expenditure. SAAS reported actual operating costs of £11.099 million (excluding Scottish Government notional costs of £0.404million) and capital expenditure of £0.385 million. The net outturn, against total budget, was an underspend of £0.196 million.

In response to the 2013 Independent review SAAS received an additional £2m baseline budget settlement for 2013/14 to help achieve the improvements required. The majority of this additional funding has gone towards increasing staffing complement in frontline service delivery roles. Of the £2.887 million increase in net operating costs in 2013/14, the majority of this (£2.020 million) was attributable to an increase in expenditure on staff costs.

Staff numbers are expected to rise again slightly in 2014/15. Much of the additional expenditure on staffing in 2013/14 was on recruiting additional agency staff, which increased expenditure in this area from £0.220 million in 2012/13 to £1.425 million in 2013/14.

During 2013/14 an impropriety was identified in relation to an internal suspected fraud. SAAS has procedures and controls in place, however in this instance these were not followed. This impropriety has not impacted on the figures reported within the financial statements.

Outlook

We have considered SAAS's financial position and budget over the remainder of the current spending review. The Scottish Government has agreed to provide SAAS with an additional capital settlement in 2014/15 to fund both the relocation to Saughton House and move to online services in line with the organisation's digital agenda. In 2014/15 the net baseline budget will be £11.3 million (including £1 million capital), with a further (as yet unquantified) settlement to come from the Scottish Government budget to assist with these projects.

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.

Introduction

1. This report is the summary of our findings from the 2013/14 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 1 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 13 February 2014, 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 2013/14 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 2013/14 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 26 June 2014.
10. We received the unaudited financial statements on 12 May 2014 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 23 May 2014. SAAS is required to follow the 2013/14 FReM and we can confirm that the financial statements have been properly prepared in accordance with these accounting requirements.

Key findings (ISA260)

11. During 2013/14 an impropriety was identified in relation to a suspected internal fraud. SAAS has procedures and controls in place, however these were not followed. This impropriety has not impacted on the figures reported within the financial statements.
12. SAAS was proactive in notifying the Fraud Response Team and received assurances on the appropriate action to take. SAAS intend to report the case in the Annual Fraud Report which will be tabled at the Audit Committee.
13. As part of our 2013/14 work, Audit Scotland were not made aware of this impropriety. Going forward we would expect similar instances to be notified to us if they arise. We have asked the Accountable Officer to provide management assurances in respect of fraud within his management representation letter in line with the requirements of ISA 580.
14. **Resolution** - SAAS has reviewed procedures and controls and intend to introduce its own policy to provide staff with examples of what constitutes a conflict of interest.

Refer action point no 1

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

15. 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.
16. SAAS is required to submit an audited consolidation pack to the Scottish Government prior to the deadline of 30 June 2014. *This part of the audit is on going and we anticipate that the audited return will be submitted by the target date.*

Financial position

2013/14 Outturn

17. The main financial objective for SAAS is to ensure that the financial outturn for the year is within 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).
18. SAAS operated within the total resource budget for 2013/14 of £11.7m as detailed in Table 1 below.

Table 1: Resource Budget

	Initial Budget (£'m)	Final Budget (£'m)	Actual Outturn (£'m)	Under / (Over) spend
Resource DEL	10.7	11.7	11.5	0.2

Source: Student Awards Agency for Scotland Annual Accounts 2013-14, and Scottish Budget documents for 2013-14

2013/14 financial position

19. The statement of financial position shows a net asset position of £1.120m at 31 March 2014 (£1.839m for 31 March 2013). The decrease in the net assets has been caused by a decrease in total assets due to depreciation and amortisation charges.

Financial planning

20. The Spending Review of 2011 set SAAS's baseline budget up until 2014-15 as set out in Table 2 below.

Table 2: Baseline budget

	2013/14 £'m	2014/15 £'m
Baseline budget	10.7	11.3
Additional Funding	1.0	TBC

Source: *Scottish Spending Review 2011 and Draft Budget 2013/14*

21. Most government departments and agencies are experiencing average decreases in funding over the course of the Spending Review. However, the Scottish Government has agreed to provide SAAS with an additional capital settlement in 2014/15 to fund both the relocation to Saughton House and move to online services in line with the organisation's digital agenda. In 2014/15 the net baseline budget will be £11.3 million (including £1 million capital), with a further (as yet unquantified) settlement to come from the Scottish Government budget to assist with these projects.
22. SAAS is a service orientated organisation with a high proportion of staffing costs. The additional funding agreed by the Scottish Government for 2013/14 and 2014/15 has helped SAAS to address some fundamental resourcing issues that were affecting service delivery. The majority of this additional funding has gone towards increasing staffing complement in frontline service delivery roles. Of the £2.887 million increase in net operating costs in 2013/14, the majority of this (£2.020 million) was attributable to an increase in expenditure on staff costs.
23. Staff numbers are expected to rise again slightly in 2014/15 after which SAAS will regard themselves to be at full complement. Much of the additional expenditure on staffing in 2013/14 was on recruiting additional agency staff, which increased expenditure in this area from £0.220 million in 2012/13 to £1.425 million in 2013/14.
24. This level of expenditure on agency staff is expected to act as a new baseline for SAAS in enabling them to better manage the seasonal workload that the business of the Agency entails. However, efforts are being made to ensure that the proportion of agency staff doesn't increase any further from this baseline, mainly through workforce planning and building a permanent central resource with experience across the business that can be allocated where needed. This is in development but will take time.
25. SAAS will have to continue to manage its resources very carefully going forward, to ensure that there is no impact on service delivery. In this environment, it will be challenging for the organisation to deliver any savings. Budgets and performance against strategic objectives will continue to be carefully monitored.

Corporate governance and systems of internal control

Overall governance arrangements

26. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements. We considered the outcome of IAD's review of governance arrangements along with the evidence gathered during the course of our final audit. We concluded that SAAS had strengthened its governance arrangements but with scope to make further improvements as outlined below.

Committees and Boards

27. There have been a number of developments in this area. Following the Independent review of SAAS in 2013, SAAS recruited a Governance Manager to take the lead on planned improvements to the Governance framework. These improvements focussed on the committees and boards within SAAS with a view to improving their effectiveness in the area of governance.
28. A new Strategic Board was created during 2013/14. The Board consists of Non-Executive Board Members and senior civil servants, its remit being to approve Agency budget allocation, monitor policy developments and to set and monitor performance targets. The Strategic Board meets quarterly and has met twice so far.
29. The Management Board has moved from a position of meeting quarterly to meeting monthly, except in months where the Strategic Board meet. This permits closer monitoring and increased responsiveness to governance issues within the organisation.
30. In addition to this, during 2013/14 the first independent member with specific central government finance experience was appointed to the Audit Committee. There has also recently been an additional four Non-Executive Board Members appointed. These members are from a wide variety of industry backgrounds and all four will sit on both the Management Board and Strategic Board. Two of the members will also sit on the Audit Committee.
31. We are also aware of further planned structural changes for 2014/15 which will see the recruitment of a new tier of Governance in the form of 3 Directors: of Operations; Corporate Affairs and Policy and Engagement. Although still at the recruitment stage, this will represent a significant change in the governance structure within SAAS.
32. The developments outlined above are indicative of the positive progress SAAS has made in this area in 2013/14, and we continue to monitor how these impact on the effectiveness of governance arrangements within SAAS.
33. The Independent Review noted that governance arrangements operating during 2012/13 did not produce effective resolution of critical issues, and recommended that the Management Board and the Audit Committee should undertake an annual review of their effectiveness to ensure that they are fit for purpose.

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34. The Audit Committee undertook a review of its own effectiveness in 2013/14. This consisted of the members of the Committee completing self assessment questionnaires, supplemented by views being sought from key stakeholders (Internal and External Audit) with respect to the performance of the committee and how it might be improved. However the outcome of this review has still to be reported.
 35. The Management Board review of its own effectiveness was intended to take the form of one-to-one interviews with each Management Board Member based on a pro-forma questionnaire. The intended output was an Action Plan to be submitted to the Board setting out areas for improvement. This review is outstanding.

Refer action point no 2

Governance Statement

36. To support the Governance Statement senior management submit an annual 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.
37. As part of our audit of the Governance Statement we review the letters of assurance. On reviewing the certificate of assurance completed by the Head of Business Delivery, we noted that the impropriety referred to in paragraphs 11-14 was not reported. Given the importance of this issue we would have expected this to have been disclosed.

Refer action point no 3

38. In writing his Annual Governance Statement, the Accountable Officer also depends on IAD to provide an annual assurance on the key internal control systems within SAAS, in the form of an Annual Internal Audit Report. This report has been issued to SAAS and provides reasonable assurance on SAAS's control environment.

Accounting and internal control systems

39. 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.
40. 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.
41. In the interests of an efficient audit approach we have relied 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.

42. The Scottish Government Service Auditor has provided reasonable assurance on the controls within the Scottish Government Financial Services Division for 2013/14. The Service Auditor relied on the work from the IAD on the Scottish Government payroll system. IAD provided reasonable assurance on this.
43. Our own testing of payroll during our audit visit highlighted issues in relation to incorrect calculations for staff leaving the organisation. Of the seven tested, three had been paid the wrong amount due to outstanding leave being incorrectly accounted for.
44. Although the amounts involved are not material there is a risk that staff final salary payments are incorrectly paid to staff.

Refer action point 4

45. On an annual basis, the Scottish Government, on behalf of SAAS, calculate and submit the relevant salary details of their senior management to MyCSP, who in turn, calculate the pension details for inclusion in the remuneration report. For one of the salary figures to be submitted to MyCSP - 'Salary as at 31/03/14' - we were unable to obtain assurance from the Scottish Government that the figure submitted to MyCSP was calculated in line with the Cabinet Office issued guidance.
46. Cabinet Office and MyCSP have confirmed that this figure does not affect the calculations included within the remuneration report and that guidance will be updated in 2014/15 to reflect current practice. We are therefore content that there are no material errors in the remuneration report. We recommend that SAAS together with the Scottish Government liaise with MyCSP to ensure that the guidance is updated and followed.

Refer action point 5

47. In 2013/14 we also carried out a follow-up review of the operational controls in place around the student awards processing system (StEPS) to establish progress on the points we raised in our 2012/13 report. The findings of this review are the subject of a separate report which will be submitted to the June 2014 Audit Committee.

Prevention and detection of fraud and irregularity

48. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. 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. In recognition of the significant risk to programme expenditure, SAAS has a dedicated Fraud Team that is funded from the Agency budget. We provide more detailed comment on the Team in our operational controls report.

NFI in Scotland

49. 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 and is due to report later this year.

Acknowledgements

50. 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 1: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	14	<p>Internal impropriety</p> <p>During 2013/14 an impropriety was identified in relation to an internal suspected fraud.</p> <p>Risk</p> <p>There is a risk further improprieties are committed.</p> <p>Recommendation</p> <p>SAAS should undertake a review of current procedures and controls to mitigate against future improprieties being committed.</p>	<p>We have reviewed the relevant procedures and controls and have made changes to mitigate against the possibility of a recurrence.</p> <p>In addition, we currently adhere to the SG Conflicts of Interest policy and plan to introduce our own policy to provide staff with clear practical examples of what constitutes a conflict of interest.</p>	Head of Policy & Compliance	October 2014
2	35	<p>Committees and Boards</p> <p>The Audit Committee undertook a review of its own effectiveness in 2013/14. However the outcome of this review has still to be reported.</p> <p>The Management Board review is outstanding.</p> <p>Risk</p> <p>There is a risk Board and Committee is not effective.</p> <p>Recommendation</p> <p>The Management Board and the Audit Committee annual review is completed and reported.</p>	<p>The reviews will be completed and reported in 2014/15.</p>	Governance Manager	March 2015

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	37	<p>Governance Statement</p> <p>The letter of assurance completed by the Head of Business Delivery did not make reference to an impropriety during 2013/14.</p> <p>Risk</p> <p>Letters of assurance do not adequately reflect the internal control system within the organisation.</p> <p>Recommendation</p> <p>A review of procedures should be undertaken to ensure responsible officers are aware of the reporting requirements for assurance statements.</p>	<p>We will continue our programme of work on risk and assurance and will use the knowledge gained to inform the assurance process for the accountable officer in 2014/15.</p>	Governance Manager	December 2015
4	44	<p>Payroll</p> <p>Our testing of payroll highlighted issues in relation to incorrect calculations for staff leaving the organisation.</p> <p>Risk</p> <p>There is a risk total payroll is not accurately disclosed within the financial statements.</p> <p>Recommendation</p> <p>SAAS should liaise with Scottish Government to ensure payroll calculations are properly processed.</p>	<p>We continue to place reliance on the SG payroll arrangements.</p> <p>We will report these findings to SG to make them aware of the impact this has had on final salary payments for staff employed by SAAS.</p>	Head of Finance	June 2014

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5	46	<p>Remuneration Report</p> <p>Current Treasury guidance requires to be updated.</p> <p>Risk</p> <p>There is a risk that incorrect salary details are submitted to MyCSP.</p> <p>Recommendation</p> <p>SAAS together with the Scottish Government liaise with MyCSP to ensure that the guidance is updated and followed.</p>	<p>We receive information from MyCSP for the pensions disclosures for the Remuneration Report at a very late stage in the audit and rely on guidance that has been issued by Cabinet Office at a very late stage in the year.</p> <p>We will report the findings from this year's audit to our colleagues at SG with a view to having our requirements from MyCSP prioritised for our early audit and making sure that any ambiguous wording in the Cabinet Office guidance is clarified with SG before being used to inform the disclosures.</p>	Head of Finance	June 2014