**AUDIT** SCOTLAND

# Student Awards Agency Scotland

2015/16 Annual audit report to Members and the Auditor General for Scotland

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Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively (www.audit-scotland.gov.uk/about/).

Rachel Browne, Senior Audit Manager, Audit Scotland is the appointed external auditor of the Student Awards Agency Scotland for the period 2014/15 to 2015/16.

This report has been prepared for the use of the Student Awards Agency Scotland and no responsibility to any member or officer in their individual capacity or any third party is accepted.

The information in it may be used by the Auditor General in support of her wider responsibilities, including reporting to the Scottish Parliament.

# Contents

# Key messages

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| **Audit of financial statements** | • The independent auditor's report on the 2015/16 financial statements is unqualified. |
| **Financial Position** | • The Student Awards Agency Scotland operated within its resource budgets for 2015/16.<br>• The Student Awards Agency Scotland has received additional in year budget allocations in 2015/16 and in previous years to augment the baseline budget for the Agency to deliver business change and maintain service delivery. This approach, while maintaining key services, introduces planning uncertainties and poses a risk to service delivery if additional in year budget is unavailable. At the time of issuing this report, no decision had been taken as to whether additional budget would be available for the Agency in 2016/17. |
| **Governance & accountability** | • Overall, we found the Student Awards Agency Scotland had effective governance arrangements in place during 2015/16, although the Corporate Plan 2012-2015 has not yet been updated.<br>• The Student Awards Agency Scotland has an effective internal audit function and robust anti-fraud arrangements. |
| **Best Value** | • The Student Awards Agency Scotland does not have an organisation-wide workforce plan; plans to develop the workforce planning approach are in progress. |

# Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of the Student Awards Agency Scotland (SAAS).

2. The management of the Student Awards Agency Scotland is responsible for:

   - preparing financial statements which give a true and fair view, in accordance with the relevant financial reporting framework

   - ensuring the regularity of transactions, by putting in place systems of internal control

   - maintaining proper accounting records

   - publishing with their financial statements an annual governance statement and a remuneration report.

3. Our responsibility, as the external auditor, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.

4. An audit of 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 with the oversight of those charged with governance. This does not relieve management of their responsibility for the preparation of financial statements.

5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports are summarised at appendix II and appendix III.

6. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

7. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

8. 2015/16 is the final year of the current five year audit appointment. From 2016/17 the auditor of the Student Awards Agency Scotland will be Grant Thornton. In accordance with agreed protocols and International Standards on Auditing we will be liaising with the incoming auditors as part of this transition.

# Audit of the 2015/16 financial statements

## Audit opinions

| | |
|---|---|
| **Financial Statements** | • The financial statements of the Student Awards Agency Scotland for 2015/16 give a true and fair view of the state of the body's affairs and of its expenditure for the year.<br>• We confirm that the financial statements have been properly prepared in accordance with the 2015/16 FReM and the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers. |
| **Regularity** | • In all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.<br>• The sums paid out of the Scottish Consolidated Fund were applied in accordance with section 65 of the Scotland Act 1998. |
| **Other prescribed matters** | • The part of the Remuneration and Staff report to be audited has been properly prepared in accordance with the requirements of the 2015/16 FReM and the requirements of the Public Finance and Accountability (Scotland) Act 2000 and direction made thereunder by the Scottish Ministers.<br>• The information given in the Performance Report is consistent with the financial statements. |

## Submission of financial statements for audit

9. We received the unaudited Annual Report and Accounts on 25 May, in line with the agreed timetable. The working papers were of a high standard and staff provided good support to the audit team which enabled us to complete our on-site fieldwork on 3 June.

## Overview of the scope of the audit of the financial statements

10. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit and Risk Committee on 17 February 2016.

11. 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 any non-audit related services. The 2015/16 agreed notional fee for the audit was £21,280 and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

12. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified eight key audit risks which had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure an appropriate level of assurance.

13. Appendix I sets out the audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

14. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

## Materiality

15. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

16. We summarised our approach to materiality in our Annual Audit Plan. We revised our planning materiality for 2015/16 on receipt of the unaudited accounts to £121,000 (1% of net operating costs of £12.104 million).

17. We also set a lower level, known as performance materiality, when defining our audit procedures. This is determined to ensure that uncorrected and undetected audit differences do not exceed our materiality level. Performance materiality was set at £48,000 (i.e. 40% of planning materiality). We report all misstatements identified which are greater than £1,000.

## Evaluation of misstatements

18. No monetary errors were identified within the financial statements during the course of the audit. A number of minor presentational errors that were identified during the audit have been adjusted in the financial statements.

## Significant findings from the audit

19. International Standard on Auditing 260 (ISA 260) requires us to communicate to you significant findings from the audit as detailed below:

   - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and disclosures.

   - Significant difficulties encountered during the audit.

   - Significant matters arising from the audit that were discussed, or subject to correspondence with management.

   - Written representations requested by the auditor.

   - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

20. Minor presentational errors were identified within the financial statements during the course of our audit. These were discussed with relevant officers. The following issues, in our view, require to be communicated to you in accordance with ISA 260:

21. **The Non Current Assets Register – existence of assets:** the register does not show enough detail for each IT asset to allow us to test the existence of specific individual assets (e.g. a sample of the scanners on the register). The asset tags are not recorded on the asset description on the register. If SAAS cannot identify individual assets on the register, there is a risk that the register is inaccurate (e.g. if an asset of a generic type, such as a scanner, is disposed of, it would not be clear which asset to remove from the register). A separate inventory of tangible assets, with asset labels, is managed by ICT and a physical check of the inventory is made twice a year. The records are not currently reconciled to the Non Current Assets Register. We have now tested and confirmed the existence of all the scanners on the Non Current Assets Register, to get the assurance that we need to support our audit opinion. SAAS should carry out a cross check of their inventory with the Non Current Assets Register to identify specific assets and confirm the accuracy of the Non Current Assets Register. **Refer Action Plan no.1**

22. **Non Current Assets Register – classification of intangible assets:** There are a number of fully depreciated intangible assets that have been classified in the financial statements as intangible in-house developed software but remain in the Non Current Assets Register under their previous categorisation, computer software/software licences. The financial statements show the correct classification in the Statement of Financial Position; however, SAAS should review whether these assets should be re-classified on the Non Current Assets Register. The assets are still in use although they have reached the end of their estimated useful life. **Refer Action Plan no.2**

# Future accounting and auditing developments

## Code of Audit Practice

23. A new Code of Audit Practice applies to public sector audits for financial years starting on or after 1 April 2016.  It replaces the Code issued in May 2011.  The new Code outlines the objectives and principles to be followed by auditors.

24. The new Code increases the transparency of our work by making more audit outputs available on Audit Scotland's website.  In addition to publishing all Annual Audit Reports, from 2016/17, Annual Audit Plans and other significant audit outputs will be put on the Audit Scotland website for all audited bodies.  This is irrespective of whether the body meets in public or makes external audit reports publicly available.

# Financial management and sustainability

25. The main financial objective for SAAS is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers. SAAS operated within its resource budgets.

## 2015/16 financial position

26. At 31 March 2016, the Statement of Financial Position shows a net asset position of £1.900 million, an increase in total equity of £0.291 million. The most significant elements of this increase are additions to the intangible assets under development (in-house developed software for the Online Services project) and the decrease in accruals at the year end.

27. SAAS is a service orientated organisation with a high proportion of staffing costs: 73% in 2015/16 (£8.864 million of £12.104 million). SAAS was given additional funding in this and the two previous years to cover staffing and other costs.

28. SAAS's 2015/16 budget increased from £11.3 million to £12.7 million in the autumn budget revision, receiving a further £0.4m for the administration of the ILA 200 scheme and £1.0 million for higher education support. The budget increased again to £13.2 million in the spring budget revision, including a contribution for the Online Services project. This final budget provided SAAS with £0.2 million

more budget than anticipated. The final revenue outturn for 2015/16 was £12.104 million; this includes notional costs of £0.489 million which are not counted against the revenue budget, resulting in a revenue underspend of £0.407 million.

29. This underspend is due to a combination of factors, including the £0.2 million not anticipated in the final budget allocation. Also, SAAS had hoped to recruit operations staff in readiness for the 2016/17 session with the additional revenue budget secured at spring budget revision. However, the recruitment process took longer than expected and this budget was not utilised by 31 March.

30. There was also a minor underspend of £0.069 million against the capital budget.

31. SAAS operated within its available funding (on an accounting and resource basis); and had an excess of total and current assets over liabilities.

32. However, SAAS has reported that its baseline budget is not sufficient to cover the current level of service provided; in 2015/16 and in previous years this funding gap has been covered by additional budget allocations in the autumn and spring budget reviews. If additional budget is not awarded for 2016/17 then SAAS will have to review its planned expenditure to address the funding gap; there may be an impact on the service provided to students. The baseline budget for 2016/17 is £12.3 million (£10.3 million operating costs and £2.0 million capital) an increase of £1 million capital against last year's initial budget. **Refer Action Plan no.3**
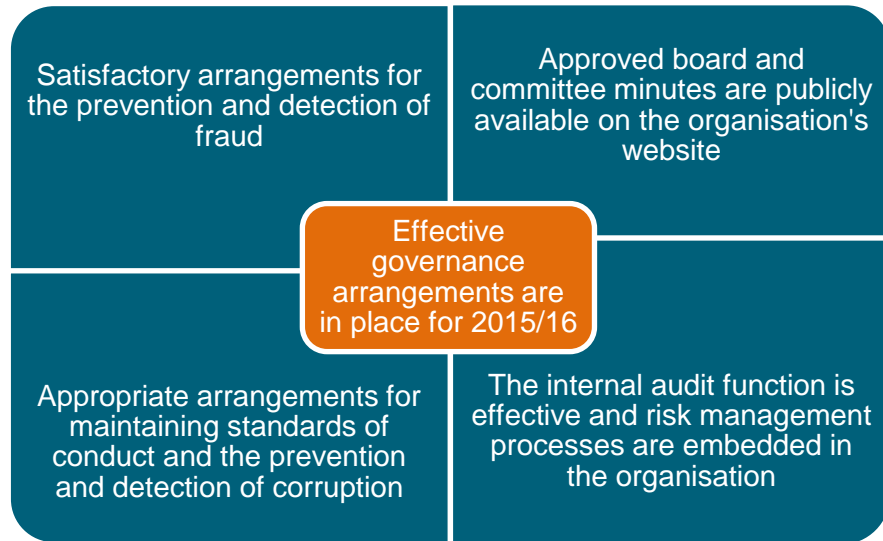
## Financial Planning

33.   As funding from the Scottish Government is SAAS's primary source of income there is a greater degree of certainty over future funding streams than for some other public sector organisations who are involved in income generating activities.  Therefore, the main focus for SAAS is achieving a balanced financial plan to remain within its annual allocation.

34.   The most recent corporate plan covers the three year period 2012-2015 and includes a high level plan of key activities covering that period based on the assumed level of funding that will be available. SAAS has not yet updated its corporate plan beyond 2015 so there is not a current strategic level plan in place to demonstrate how SAAS will deliver its activities and remain within the assumed funding allocation.  **Refer Action Plan no.4**

## Financial management

35.   As auditors we need to consider whether bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:

- the Director of Finance has sufficient status to be able to deliver good financial management

- standing financial instructions and standing orders are comprehensive, current and promoted within the body

- reports monitoring performance against budgets are accurate and provided regularly to budget holders

- monitoring reports do not just contain financial data but are linked to information about performance

- Audit and Risk Committee members provide a good level of challenge and question significant variances.

36.   Based on our accumulated knowledge, our review of Management Board and committee meeting papers and through our attendance at the Audit and Risk Committee we conclude that SAAS has strong financial management arrangements in place.

# Governance and transparency

Satisfactory arrangements for the prevention and detection of fraud

Approved board and committee minutes are publicly available on the organisation's website

Effective governance arrangements are in place for 2015/16

Appropriate arrangements for maintaining standards of conduct and the prevention and detection of corruption

The internal audit function is effective and risk management processes are embedded in the organisation

## Corporate governance

37. The Chief Executive is the Agency's Accountable Officer, answerable to the Scottish Government's Principal Accountable Officer and Scottish Ministers. He is supported by a Management Board of Executive and Non-Executive Directors.

38. The Chief Executive and the Management Board are responsible for establishing arrangements for ensuring the proper conduct of the affairs of the Student Awards Agency Scotland and for monitoring the adequacy of these arrangements.

39. The Management Board is supported in its role by the Audit and Risk Committee and the Transformation Board. In addition, the Strategic Board brings together non executive board members and the Chief Executive with senior civil servants from the Scottish Government to review SAAS's budget requirements, monitor policy developments and monitor performance targets. The boards and committees meet on a regular basis throughout the year to consider relevant matters.

40. As noted at paragraph 34 above, SAAS's corporate plan has not yet been updated; this process was delayed until after a new Chief Executive was appointed in February 2016. We have also noted that there is no current approved ICT strategy in place, at a time when SAAS is investing in its Online Services, a major ICT based project. These strategic planning documents should be updated to set out the key priorities for SAAS and show at a high level how these will be delivered within the assumed available funding. **Refer Action Plan no.4**

41. We concluded that SAAS has effective overarching governance arrangements which provide an appropriate framework for organisational decision making, but that some key strategic documents which support good governance need updating.

## Transparency

42. The Scottish Government's On Board guidance (http://www.gov.scot/Publications/2015/04/9736/0) for board members of public bodies was updated and reissued in April 2015. The Guidance states that boards should demonstrate high standards of corporate governance at all times including openness and transparency in decision making. It recommends boards should consider:

    - holding an annual open meeting

    - holding board meetings in public unless there is a good reason not to

    - publishing summary reports and/or minutes of meetings

    - inviting evidence from members of the public in relation to matters of public concern

    - consulting stakeholders and users on a wide range of issues

    - making corporate plans and the annual report widely available.

43. Last year we reported our assessment of SAAS's transparency in its financial reporting and other publicly available information and recommended that SAAS should consider the On Board guidance for transparency in decision making, and review whether all of its meetings should be held in private.

44. SAAS considered whether its board and committee meetings should be held in private and concluded that these meetings would continue to be held in private and the papers for these meetings would not be made publicly available. The approved minutes of

these meetings are published on SAAS's website; Management Board minutes are available to January 2016 and Audit and Risk Committee minutes are available to February 2016 on the website. SAAS should keep the transparency of conducting its business under review.

45. In terms of the transparency of financial reporting, the Annual Report and Accounts are published on the SAAS website once the accounts have been laid before Parliament. The financial statements clearly include a reconciliation between expenditure and the outturn against Scottish Government resource budgets.

## Internal control

46. In the interests of an efficient audit approach we have relied on assurances received from the auditor of the Scottish Government on audit testing of the Scottish Government central systems that are used by SAAS. This approach ensures we deliver an efficient co-ordinated audit that avoids unnecessary duplication and expense.

47. On behalf of the Scottish Government audit team, we carried out controls testing on the systems and processes related to student loans expenditure in the Scottish Government financial statements. We identified one exception during this testing, in relation to the suspension of payments to students upon receipt of relevant information relating to their attendance or enrolment.

48. Colleges and universities notify SAAS on a weekly basis their attendance/enrolment confirmation and any exits/absences that have been identified. Once SAAS has received confirmation that a

student's funding should be stopped, the StEPS system is updated to record the reason why, and the award is recalculated to stop any future payments being processed.

49. Of the 16 transactions tested, there was one error noted. SAAS were informed by a university in October 2015 that funding to a student should be stopped due to non-attendance. The StEPS system had been updated to record the reason why funding should not be provided, but the award had not been recalculated. This meant payments continued to be made until April 2016, when the transaction was reviewed by the auditor.

50. The Operations Team has confirmed that this was the result of human error: the officer who input the reason for funding being stopped had not checked a box on the system which would have prompted reassessment of the award. Repayment of the student loan will be sought in line with the standard procedures for student loan repayment.

51. The Scottish Government Service Auditor has provided reasonable assurance on the controls within the Scottish Government Financial Services Division for 2015/16. Taken together with our own testing of Scottish Government payroll for SAAS staff, this gives us sufficient assurance to support the audit opinion.

## Internal audit

52. Internal audit provides the Audit and Risk Committee and accountable officer with independent assurance on the overall risk management, internal control and corporate governance processes.

We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. Internal audit is provided by the Scottish Government Internal Audit Directorate.

53. Our review of internal audit concluded that overall the internal audit service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

54. The internal audit plan for 2015/16 was materially complete. In our 2015/16 Annual Audit Plan we concluded that we did not plan to place formal reliance on the work of internal audit in 2015/16 for our financial statements audit due to the nature of the internal audit work. In respect of our wider governance and performance audit work we have taken account of internal audit's 2015/16 work, particularly the IT Data Interchange and Security report.

## Business Continuity Planning

55. Business continuity planning has been identified as an area of risk by internal audit and ourselves for a number of years. Internal audit has made high priority recommendations for business continuity plan testing and updating key business continuity plan details.

56. SAAS's progress in implementing internal audit's recommendations is regularly reported to the Audit and Risk Committee via the audit recommendations tracker. SAAS has appointed a Business Continuity Planning expert to assess business continuity arrangements across the organisation. This review should

encompass the internal and external audit recommendations on business continuity planning. The timescale for the reporting of this work is October 2016, after this audit report is issued.

57. We conclude that there is still a risk that the business continuity plans in place are not sufficient to allow SAAS to operate effectively if Saughton House should become unavailable. **Refer Action Plan no.5**

## Arrangements for the prevention and detection of fraud

58. 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.

59. In our opinion SAAS's overall arrangements for the prevention of fraud, irregularity and corruption are satisfactory, although it should be noted that no system can eliminate the risk of fraud, irregularity or corruption entirely.

### National Fraud Initiative in Scotland

60. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error.

61. Auditors are required to assess the arrangements that bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.

62. As part of the 2014/15 NFI exercise, SAAS submitted student support data and the matching process identified 80 data matches, with 3 of these "recommended" as a priority for investigation. All data matches have been investigated: four frauds and seven errors have been identified from these investigations.

63. SAAS has shown continuous commitment and support to the NFI exercise. NFI continues to have a high profile within SAAS; data matches are actively investigated and findings are reported to the Audit and Risk Committee. SAAS is in discussion with the Cabinet Office regarding the use of the NFI systems to allow a more current matching service rather than matching every two years as is currently the case.

## Arrangements for maintaining standards of conduct and the prevention and detection of corruption

64. 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. We consider whether bodies have adequate arrangements in place and have concluded that appropriate arrangements exist within SAAS.

# Best Value

## Arrangements for securing Best Value

65. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.

66. The Auditor General may require that we consider whether Accountable Officers have put in place appropriate arrangements to satisfy their corresponding duty of Best value. Where such requirements are not specified we may agree to undertake local work in this area.

67. We did not undertake any specific work in this area during 2015/16.

## Local performance audit work

**Workforce Planning Arrangements**

68. During 2015/16 auditors of all public bodies were asked to undertake audit work reviewing the workforce planning arrangements in place. This work will feed into a follow up to our 2013 report *Scotland's Public Sector Workforce*.

69. SAAS does not currently have an organisation-wide workforce plan; there is an annual process to assess staffing requirements, but no

workforce plan supporting it. Forecasting of staff numbers and costs is carried out on an annual basis, as part of the budget setting process, and drives the recruitment of temporary staff for the busy periods when the majority of applications are submitted for student funding. The addition, replacement or removal of permanent posts is also driven by these forecasts.

70. There is no specific assessment of skills requirements, or forecasting over the medium to longer term. We also did not note any succession planning within this annual process.

71. SAAS is currently developing its approach to workforce planning; this is another aspect of strategic planning which should align with the development of SAAS's corporate plan.

72. SAAS should draw on good practice used elsewhere to inform its development of a workforce plan which covers the whole organisation over the medium and long term. **Refer action plan no.6**

## National performance audit reports

73. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, a number of reports were issued that may be of interest to SAAS. A summary of these reports is outlined in Appendix III.

74. On 7 July, Audit Scotland published a national performance audit report examining how higher education is funded and delivered in

Scotland, including how much public money is invested and an assessment of how the sector is performing financially. It also examines how the sector contributes to national strategic objectives, and how well equipped the sector is to deal with future financial challenges.

75. The report concludes that the higher education sector is successful and internationally renowned. However, it faces significant challenges from increasing costs, potential further reductions in Scottish Government funding, and risks to universities' ability to continue increasing income from other sources.

76. While the sector is in good financial health overall, this masks underlying risks. Some of Scotland's 19 higher education institutions are heavily reliant on Scottish Government funding, and there is increasing dependence on income generated from fee-paying students from the rest of the UK, and outside the EU.

77. In 2014/15, the Scottish Government provided £1.7 billion to universities and individual students to support its policy ambitions for higher education, including widening access, world-class research and improving innovation. The Scottish Funding Council's (SFC) funding approaches make achieving these ambitions challenging, and the SFC needs to review its strategies in these key areas.

78. The report also examines the student population in Scotland, looking at numbers, debt and application rates. It notes that most students have a positive experience of higher education, and recent figures show that the majority progress to employment or further study. However, it also highlights that levels of student debt are growing, and it's becoming more difficult for Scottish students to gain a place at university.

79. The report makes a number of recommendations for universities, the Scottish Government, the Scottish Funding Council and the Student Awards Agency Scotland.

# Appendix I: Significant audit risks

The table below sets out the audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

| Audit Risk | Assurance procedure | Results and conclusions |
|---|---|---|
| **Risk of material misstatement** | | |
| **Management override of controls**<br><br>As stated in International Standard on Auditing 240, management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. | • Detailed testing of journal entries.<br>• Review of accounting estimates and judgements.<br>• Evaluating significant transactions that are outside the normal course of business. | From our audit testing we concluded that the 2015/16 journal entries, accounting estimates and judgements and transactions tested were appropriate. |
| **Submission of Annual Report and Accounts**<br><br>The annual report and accounts disclosure requirements of the Government Financial Reporting Manual (FReM) have been extensively re-written for 2015/16. SAAS may need to amend its annual report preparation timetable to ensure it complies with FReM. Non-compliance with FReM would be reflected in the independent auditor's report (the audit opinion).<br><br>In 2014/15 the management commentary and | • Agreement of audit timetable with SAAS.<br>• We will review an early draft of the annual report in advance of the financial statements audit.<br>• We will review the SAAS annual report and accounts against the revised FReM requirements.<br>• We will also review the annual report disclosures to ensure consistency with the financial statements and our knowledge of | SAAS provided an early draft of the annual report in advance of the financial statements audit; this draft contained all the expected disclosure sections.<br><br>The Annual Report and Accounts 2015/16 document was reviewed against the new FReM requirements. No areas of non-compliance were identified. The disclosures in the Performance Report and the Accountability Report were reviewed and found to be |

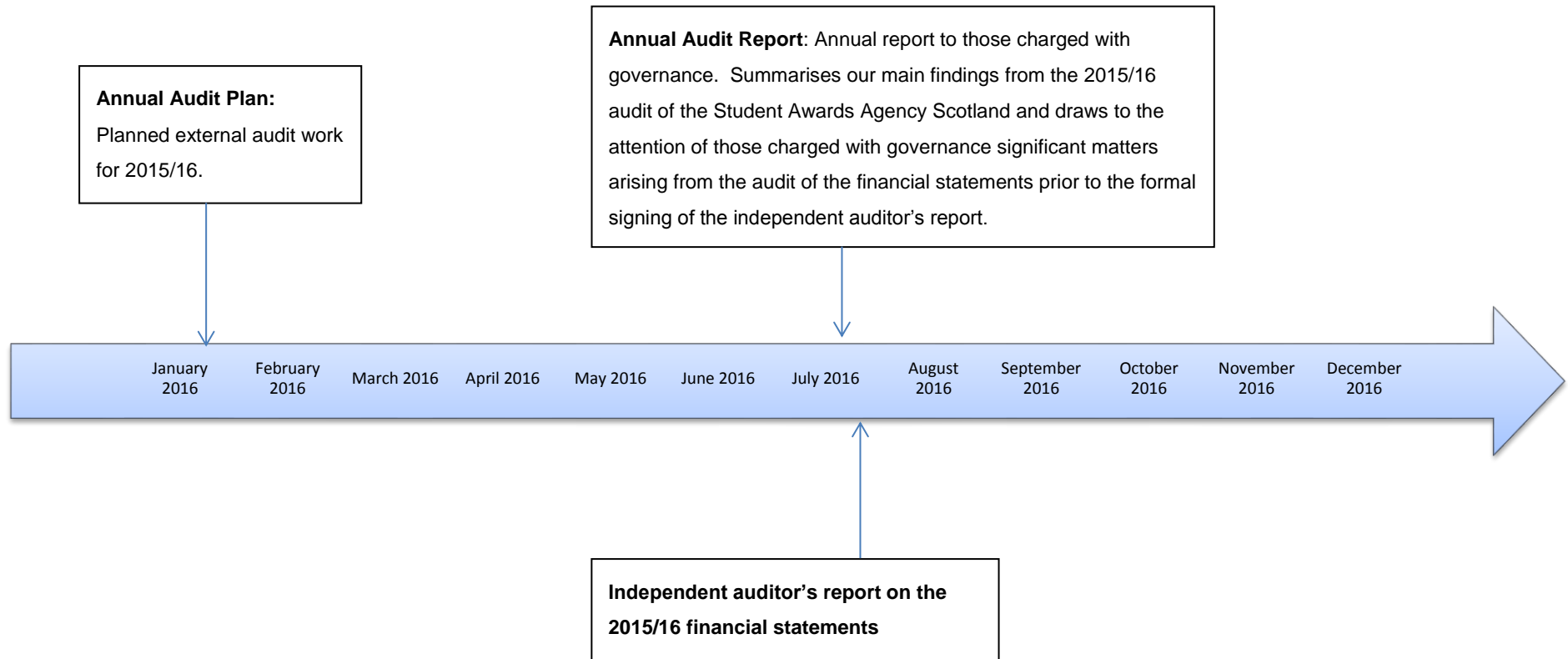| Audit Risk | Assurance procedure | Results and conclusions |
|---|---|---|
| the financial statements were submitted separately and additional audit review was required when they were combined into the Annual Report and Accounts. An additional audit fee may be charged if unplanned audit work is required. | SAAS. | consistent with the financial statements and our knowledge of SAAS. |
| **Governance Statement and assurances**<br><br>Due to the timing of Internal Audit's audit year, there is a risk that Internal Audit's Annual Report is not received in sufficient time to inform SAAS's preparation of the 2015/16 Governance Statement. | • Audit of the 2015/16 Governance Statement as part of final accounts testing.<br><br>• We will liaise with internal audit on the expected timing of the Annual Report. | Internal Audit's 2015/16 Annual Report was awaiting finalisation when SAAS prepared the Governance Statement. This report contains the overall annual assurance relating to SAAS's system of internal control, governance and risk management.<br><br>In order to inform SAAS's preparation of the 2015/16 Governance Statement, an interim report was provided to the May 2016 Audit and Risk Committee meeting and Internal Audit kept SAAS updated with progress on Scottish Government corporate systems assurance.<br><br>We reviewed Internal Audit's 2015/16 audit reports and the Service Auditor assurance reports on internal controls over the Scottish Government systems used by SAAS. These reports should identify any significant weaknesses requiring disclosure in the |

| Audit Risk | Assurance procedure | Results and conclusions |
|---|---|---|
| | | Governance Statement.<br><br>We reviewed the 2015/16 Governance Statement and concluded that it complies with guidance from Scottish Ministers. |
| **Memorandum of Terms of Occupation (MOTO)**<br><br>The MOTO agreement for SAAS' occupancy of Saughton House had not been finalised and signed by the end of the 2014/15 audit.<br><br>If SAAS does not have agreement on the terms of its occupation of Saughton House it may be unable to capitalise future improvement work.<br><br>The MOTO agreement should be finalised promptly to ensure the lease disclosure in the 2015/16 accounts is appropriate. | • We will obtain and review the signed MOTO agreement when it is available. (The target date was September 2015.)<br>• We will audit the lease disclosures and capital expenditure in the 2015/16 financial statements. | The signed MOTO was provided by SAAS finance staff during our final accounts audit. We reviewed this together with the lease disclosures and capital expenditure in the 2015/16 financial statements. We concluded that the disclosures were satisfactory. |
| **Financial Position and Planning**<br><br>Our review of the Management Board minutes indicated that SAAS will require additional funding above baseline budgets simply to maintain current staff levels and continue with its IT transformation programme over the next 5 years. We also noted that items of planned expenditure have been removed from the 2015/16 programme. Strong financial | • We will review Finance Reports to the Management Board and Audit Committee.<br>• We will review the extent of scrutiny by those charged with governance. | The Management Board and Audit and Risk Committee have received regular Finance Reports during 2015/16, which we have reviewed.<br><br>We have concluded that financial management at SAAS is strong, but note that there is not a current strategic level plan in place to demonstrate how SAAS will deliver its key priorities and remain within its assumed funding |

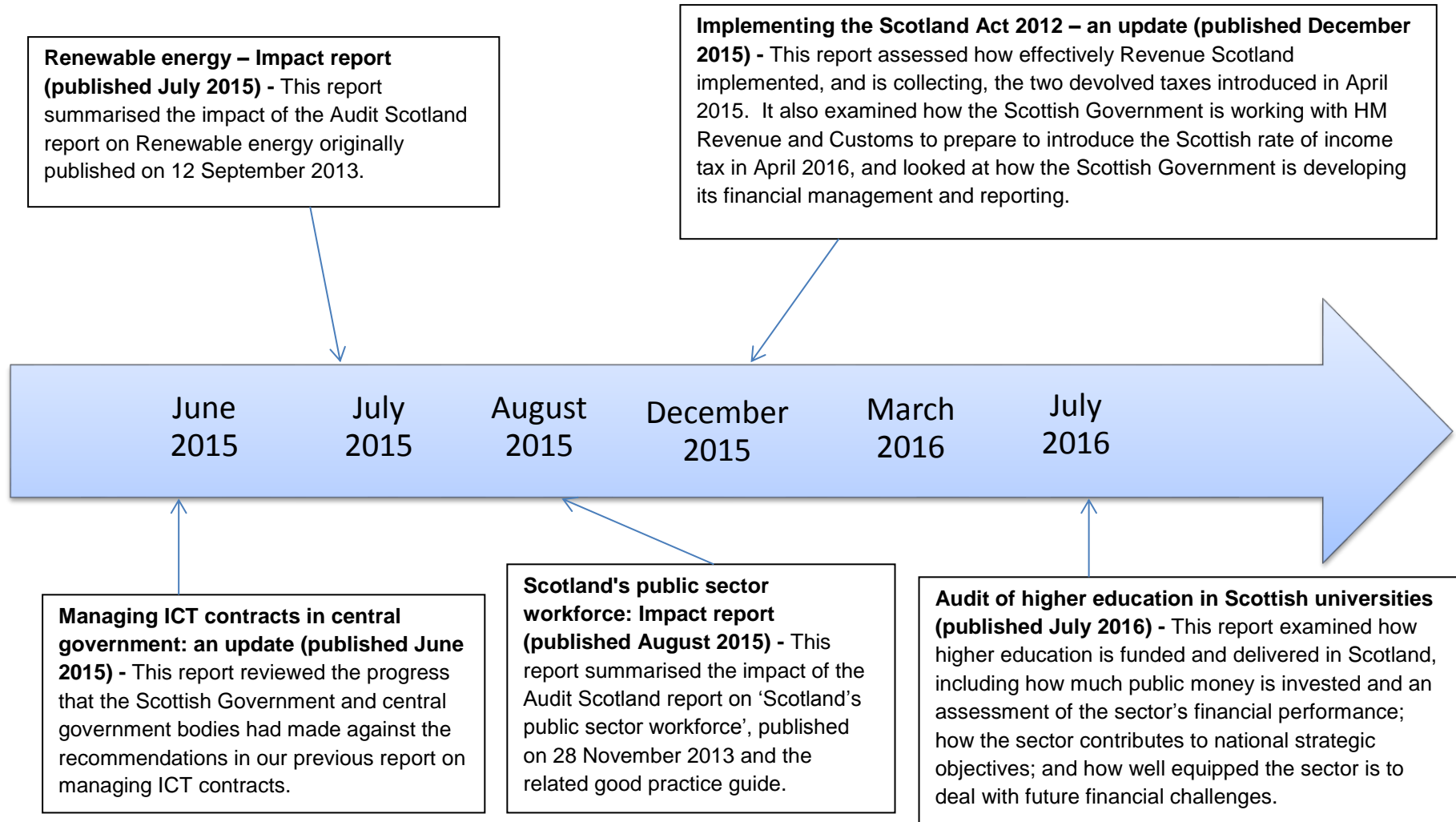| Audit Risk | Assurance procedure | Results and conclusions |
|---|---|---|
| management and robust long term financial planning will be particularly important to deliver SAAS' future plans in the face of ongoing public sector financial constraint. | | allocation. SAAS should develop its long-term financial planning as part of its corporate planning process. |
| **Risks identified from the auditor's wider responsibility under the Code of Audit Practice** | | |
| **Risk of fraud and student loan overpayments**<br>There are ongoing risks of fraudulent applications for financial support and of overpayments to students. | • We will review SAAS's NFI match investigations.<br>• We will review SAAS's reports on identified fraud and counter fraud activities. | We reviewed SAAS's investigation of NFI data matches as part of our audit, and concluded SAAS has shown continuous commitment and support to the latest NFI exercise. Through NFI matching, SAAS identified 4 cases of suspected fraud from a total of 80 matches from the 2014/15 exercise.<br>Overall, the SAAS Fraud Team received a total of 215 cases for investigation in 2015/16.<br>The Audit and Risk Committee receives regular Fraud reports which outline the Fraud Team's caseload and the investigation outcomes, including successful court cases.<br>We concluded that SAAS's overall arrangements for the prevention of fraud, irregularity and corruption are satisfactory. SAAS is active in seeking ways to develop its counter fraud activities. |

| Audit Risk | Assurance procedure | Results and conclusions |
|---|---|---|
| **Transparency and accountability**<br><br>SAAS holds its board and committee meetings in private and the papers are not publicly available. Approved minutes are published on the website but these are not always kept up to date. We reported last year that there was scope for SAAS to review whether some board and committee meetings could be held in public, to increase the accessibility of their discussions. Holding all board and committee meeting in private may not be seen as open and transparent decision making. | • We will review SAAS's public reporting of its performance and activities, both in its Annual Report and Accounts and on its website. | SAAS has considered the possibility of holding board and committee meetings in public in 2015/16. It has decided to continue holding meetings in private; the approved minutes of these meetings are published on the SAAS website.<br><br>The Annual Report and Accounts contains a clear reconciliation between expenditure and the outturn against Scottish Government resource budgets.<br><br>SAAS should keep the transparency of conducting its business under review. |
| **Business Continuity**<br><br>Business continuity planning has been identified as an area of risk by internal audit and ourselves for a number of years. Internal audit made high priority recommendations for business continuity plan testing and updating key business continuity plan details.<br><br>There is a continuing risk that the business continuity plans in place are not sufficient to allow SAAS to operate effectively if Saughton House should become unavailable. | • We will continue to monitor SAAS's reported progress in implementing internal audit's recommendations in 2015/16.<br><br>• We will monitor SAAS' progress reporting on the BCP review. Our audit will conclude before the formal review report is expected to be available. | SAAS's progress in implementing internal audit's recommendations is regularly reported to the Audit and Risk Committee via the audit recommendations tracker. SAAS has appointed a Business Continuity Planning expert to assess business continuity arrangements across the organisation. This review should encompass the internal and external audit recommendations on business continuity planning. The timescale for the reporting of this work is October 2016, after this audit report is issued.<br><br>We conclude that there is still a risk that the |

| Audit Risk | Assurance procedure | Results and conclusions |
|---|---|---|
| | | business continuity plans in place are not sufficient to allow SAAS to operate effectively if Saughton House should become unavailable. |

# Appendix II: Summary of local audit reports 2015/16

**Annual Audit Plan:**

Planned external audit work for 2015/16.

**Annual Audit Report**: Annual report to those charged with governance. Summarises our main findings from the 2015/16 audit of the Student Awards Agency Scotland and draws to the attention of those charged with governance significant matters arising from the audit of the financial statements prior to the formal signing of the independent auditor's report.

| January 2016 | February 2016 | March 2016 | April 2016 | May 2016 | June 2016 | July 2016 | August 2016 | September 2016 | October 2016 | November 2016 | December 2016 |

**Independent auditor's report on the 2015/16 financial statements**

# Appendix III: Summary of Audit Scotland national reports 2015/16

**Renewable energy – Impact report (published July 2015) -** This report summarised the impact of the Audit Scotland report on Renewable energy originally published on 12 September 2013.

**Implementing the Scotland Act 2012 – an update (published December 2015) -** This report assessed how effectively Revenue Scotland implemented, and is collecting, the two devolved taxes introduced in April 2015. It also examined how the Scottish Government is working with HM Revenue and Customs to prepare to introduce the Scottish rate of income tax in April 2016, and looked at how the Scottish Government is developing its financial management and reporting.

| June 2015 | July 2015 | August 2015 | December 2015 | March 2016 | July 2016 |

**Managing ICT contracts in central government: an update (published June 2015) -** This report reviewed the progress that the Scottish Government and central government bodies had made against the recommendations in our previous report on managing ICT contracts.

**Scotland's public sector workforce: Impact report (published August 2015) -** This report summarised the impact of the Audit Scotland report on 'Scotland's public sector workforce', published on 28 November 2013 and the related good practice guide.

**Audit of higher education in Scottish universities (published July 2016) -** This report examined how higher education is funded and delivered in Scotland, including how much public money is invested and an assessment of the sector's financial performance; how the sector contributes to national strategic objectives; and how well equipped the sector is to deal with future financial challenges.

# Appendix IV: Action plan

| No. AS ref. | Paragraph ref. | Issue/Recommendation | Management action/response | Responsible officer(s) / Target date |
|---|---|---|---|---|
| **1.** **74514** | 21 | **Non Current Assets Register – confirming existence of assets** <br><br> The Non Current Assets Register does not show enough detail for each asset to identify specific individual assets where there are a number of similar assets (e.g. scanners). A separate inventory of tangible assets, with asset labels, is managed by ICT and a physical check of assets against inventory is made twice a year. The inventory is not, however, currently reconciled to the Non Current Assets Register. <br><br> **Recommendation** <br><br> SAAS should carry out a cross check of its inventory with the Non Current Assets Register to identify specific assets and confirm the accuracy of the Non Current Assets Register. | Work has been undertaken to strengthen the asset inventory and other asset records as part of the Service Desk improvements and ITIL development work. The next step will be to cross reference and reconcile all assets with the formal Non Current Asset Register. | Claire Tinney, Head of Finance <br><br> Mike Chalmers, Head of ICT <br><br> March 2017 |

| No. AS ref. | Paragraph ref. | Issue/Recommendation | Management action/response | Responsible officer(s) / Target date |
|---|---|---|---|---|
| **2.** **74493** | 22 | **Non Current Assets Register – classification of intangible assets:**<br><br>There are a number of fully depreciated intangible assets that have been classified in the financial statement as intangible in-house developed software but remain in the Non Current Assets Register under their previous categorisation, computer software/software licences.<br><br>**Recommendation**<br><br>SAAS should review whether these assets can be re-classified on the Non Current Assets Register. | We will carry out a full review of the Non Current Asset Register to confirm content and classification of assets. | Claire Tinney, Head of Finance<br><br>Mike Chalmers, Head of ICT<br><br>March 2017 |
| **3.** **71342** **71343** | 32 | **Sustainability of financial position – financial planning**<br><br>SAAS has reported that its baseline budget for 2016/17 is not sufficient to cover the current level of service provided; in previous years additional funding has been allocated in the autumn and spring budget reviews. If additional budget is not available for 2016/17 then SAAS will have to reduce its planned expenditure and this may have an impact on the service provided to students. | SAAS is in discussions with Scottish Government in relation to the 2016-17 position and has developed contingency arrangements should there be an overall reduction in running cost budget.<br><br><br>We will work with colleagues to agree a budget for the Agency for the Spending Review period, April 2017 to March 2020.  This will be informed by the Agency's Corporate/Strategic Plan and the funding | Audrey Shimmons, Director of Finance<br>August 2016<br><br><br>Audrey Shimmons, Director of Finance |

| No. AS ref. | Paragraph ref. | Issue/Recommendation | Management action/response | Responsible officer(s) / Target date |
|---|---|---|---|---|
| | | **Recommendation** SAAS should develop a medium to long term financial plan, utilising scenario planning to test delivery of its strategic objectives against a range of future funding positions. | limitations that may be placed on the Agency. | December 2016 |
| **4.** **70664** **71339** | 34 and 40 | **Strategic Planning – Corporate Plan** SAAS has not updated its corporate plan beyond 2015 so there is not a current strategic level plan in place to demonstrate how SAAS will deliver its activities and remain within the assumed funding allocation.   There is also no current approved ICT strategy in place, at a time when SAAS is investing in its Online Services, a major ICT based project. **Recommendation** SAAS's strategic planning documents (corporate plan, financial plan, workforce plan, strategic ICT plan) should be updated to set out the key priorities for SAAS and show at a high level how these will be delivered within the assumed available funding. | SAAS has appointed a planning manager. A revised SAAS Strategy is being formulated and we have commenced planning arrangements across the Agency to develop an updated Corporate Plan and supporting Directorate plans. | Paul Lowe, Chief Executive December 2016 |

| No.<br>AS ref. | Paragraph ref. | Issue/Recommendation | Management action/response | Responsible officer(s) / Target date |
|---|---|---|---|---|
| **5.**<br>**70442** | 57 | **Business Continuity Planning**<br><br>Business continuity planning has been identified as an area of risk by internal audit and ourselves for a number of years.  Internal audit made high priority recommendations for business continuity plan testing and updating key business continuity plan details. Progress in addressing this risk area is still ongoing: SAAS has appointed a Business Continuity Planning expert to assess business continuity arrangements across the organisation; she is expected to report the results of her review in October 2016.<br><br>There is a continuing risk that the business continuity plans in place are not sufficient to allow SAAS to operate effectively if Saughton House should become unavailable.<br><br>**Recommendation**<br><br>SAAS should use the business continuity planning review to improve the robustness of its business continuity planning and ensure internal audit's recommendations are addressed. | A Business Continuity expert has been appointed by the Agency who is working to develop business continuity arrangements and plans. | Keith Jenkinson, Director of Corporate Services<br><br>December 2016 |

| No. AS ref. | Paragraph ref. | Issue/Recommendation | Management action/response | Responsible officer(s) / Target date |
|---|---|---|---|---|
| **6.** **73962** | 72 | **Strategic Planning - Workforce Planning**<br><br>Current SAAS workforce planning arrangements are focused on allocating single year resources to core business activities.  Staff numbers and costs are forecast annually as part of the budget setting process, but there is no assessment of future skills requirements or succession planning.<br><br>**Recommendation**<br><br>SAAS should develop its workforce planning to include an organisation-wide workforce plan covering medium to long term forecasts of staff numbers, costs and skills. | SAAS has appointed an organisational development manager who is working with the wider Agency to develop workforce planning and strategy arrangements. These are being developed alongside the wider corporate planning work. | Keith Jenkinson, Director of Corporate Services<br><br>March 2017 |