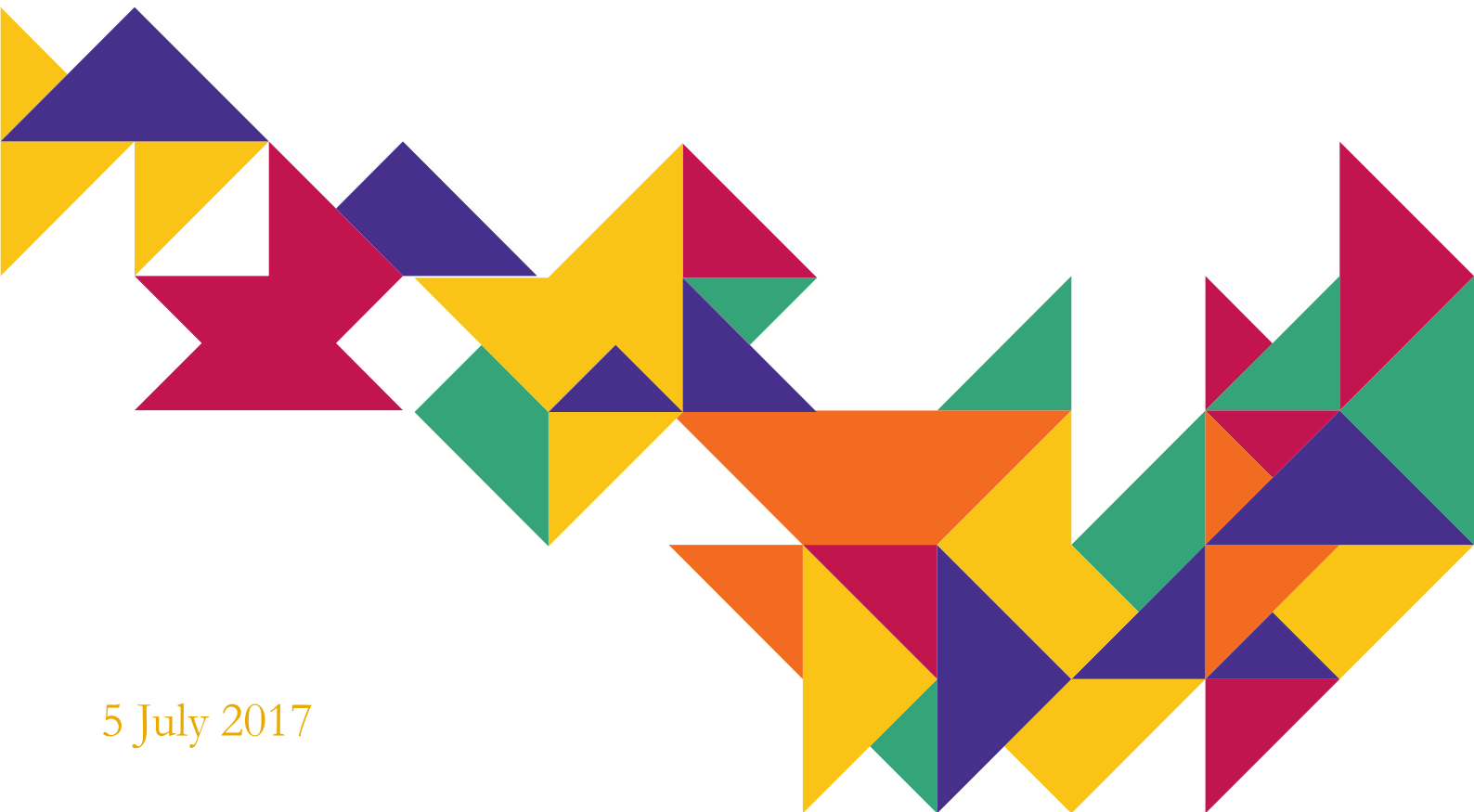


Student Awards Agency Scotland

External Audit Annual Report to the
Accountable Officer and the Auditor General
for Scotland - Final

2016/17 Financial Year

5 July 2017



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Summary of our audit plan:

<p>Materiality has been updated based on draft financial statements to £119,000 (1% of gross 2016/17). Our plan calculated materiality as £121,000 based on 2015/16 financial statements.</p>	<p>Performance materiality is £77,000 and we have reported to management everything identified over £1,200 (1% of materiality).</p>	<p>Significant audit risks were: management override of controls; risk of fraud in revenue recognition; completeness of operating expenditure and completeness of employee remuneration.</p>	<p>Our wider scope work focused on the risk of future financial sustainability recognising the nature of SAAS's activities.</p>
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We can confirm we are independent of Student Awards Agency Scotland (SAAS) and our objectivity is not compromised in accordance with International standards on Auditing (UK & Ireland) and APB ethical standards for Auditors. No non-audit services have been provided to SAAS in 2016/17.

Key Messages

We intend to issue an unqualified opinion on:

- True and fair view of the financial statements
- Regularity
- Other prescribed matters.

Our work included:

- An audit of the 2016/17 Annual Report and Accounts
- A review of the Performance Report and Accountability Report, including the Governance Statement and Remuneration Report
- Completion of an EU Funding data return recognising the Agency does not receive funding via EU grants
- Completion of the National Fraud Initiative (NFI) return and review of data matching progress.

This report is a summary of our findings from our external audit work for the financial year ended March 2017. Our work has been undertaken in accordance with International Standards on Auditing (UK & Ireland) and the Code of Audit Practice (2016).

Our report is addressed to the Accountable Officer (in their role as those charged with governance) and the Auditor General for Scotland. This report will be published on the Audit Scotland website at: www.audit-scotland.gov.uk

This report has been discussed and agreed with management, and presented to the Audit and Risk Committee on 5 July 2017 alongside the final audited annual report and accounts.

We would like to thank management and staff for their co-operation and assistance throughout our audit work.

For and on behalf of Grant Thornton UK LLP

5 July 2017.



The Financial Statements Audit



Financial statements and regularity audit

Our audit plan was presented to the Audit and Risk Committee on 1 February 2017. We have not altered our planned audit approach as set out in the plan. However, we have updated our final materiality figures based on the draft 2016/17 accounts. Our planned materiality was £121,000, which we subsequently updated to £119,000 taking 1% of unaudited 2016/17 expenditure. Our audit is substantially complete, subject to the finalisation of:

- Our completion procedures including receipt of a letter of representation from the Accountable Officer.

Our audit work commenced on-site on 5 June 2017 following a planning visit we completed in January 2017. We received the draft annual report and accounts within the agreed audit timetable, alongside good working papers to support the accounts.

We intend to issue a true and fair audit opinion on the financial statements, and regulatory opinion.

Appendix 1 shows there are no corrected or uncorrected adjustments. We have recommended a number of minor disclosure changes to the draft Annual Report and Accounts, which management have made.

In line with triviality we have not found any potential audit adjustments above £1,200, which we need to bring to your attention.

Internal Control Environment

During the year we have sought to understand SAAS's overall control environment as related to the Annual Report and Accounts. In particular we have:

- Considered procedures and controls around related parties, journal entries and other key entity level controls
- Performed procedures around IT general controls including the interface of SEAS
- Performed walkthrough procedures on key controls around identified risk areas.

Internal Control Environment (continued)

No material weaknesses in the accounting and internal control systems were identified during the audit which could have an adverse impact on SAAS's ability to record, process, summarise and report financial and other relevant data.

Under ISAs we are required to report to those charged with governance the main issues arising from our audit of the Annual Report and Accounts.

This report discharges our obligations under the relevant ISAs.

Internal Audit

As set out in our plan we have not placed formal reliance on the work of Internal Audit during 2016/17. We have reviewed the Internal Audit Plan, and the 2 internal reports issued with reasonable assurance as considered relevant to our external audit, which are:

- 'Fraud Prevention, Detection and Investigation'; and
- 'IT Project Management' reviews.

Internal Audit's Annual Assurance Report opinion for 2016/17, issued on 3 May 2017 gave: "Reasonable assurance provided on risk management, control and governance arrangements."

The findings do not disagree with our knowledge and understanding of SAAS as an organisation and its risk profile. No risks were identified by Internal Audit that caused us to re-consider or alter our audit plan.

The Internal Audit Annual Report confirms that the service is provided in accordance with Public Sector Internal Audit Standards and that Internal Audit has sufficient resources to deliver a compliant internal audit service and an annual opinion covering SAAS's arrangements over governance, control and risk.

Our identified audit risks

Audit plan identified risk and work completed	Our conclusion
<p>Management override of controls</p> <p>Under ISA (UK&I) 240 there is presumed risk that the risk of management over-ride of controls is present in all entities (fraud risk).</p> <p>Work undertaken:</p> <p>Completed a walkthrough of the controls and procedures in place around journal entries.</p> <p>Reviewed the key accounting estimates, judgements and decisions made by management in particular depreciation, amortisation and accruals.</p> <p>Tested journal entries with a focus on large and/or unusual values; posting sources; unexpected and unusual timing of journals, as identified using our IDEA data analysis software.</p> <p>Reviewed unusual and/or significant transactions.</p>	<p>Key accounting estimates: We did not identify any significant areas of bias in key judgements by management and judgements were consistent with prior years. For example, the method and valuation process and calculation of bad debt provisions.</p> <p>Included within accruals is a holiday pay accrual of £234,000. We are satisfied on how management have calculated this accrual and traced this to underlying records.</p> <p>Journals: We made inquiries of those members of staff who can post and authorise journals related to inappropriate or unusual activity with no concerns noted. We confirmed completeness of journals, identifying 788 journals during the year. We targeted large and/or unusual journals and noted no issues from our testing.</p> <p>Through our substantive audit testing we did not identify any significant transactions out with the normal course of business for SAAS.</p>
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA 240 (UK&I) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. We rebutted this in relation to Scottish Government funding given the nature of that income source.</p> <p>Work undertaken:</p> <p>Having considered the risk factors set out in ISA (UK&I) 240 and the nature of the revenue streams at the Agency, we determined the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition; • As the Agency does not have a separate bank account and access funds direct from Scottish Government there is limited opportunity to manipulate reported revenues; and • the culture and ethical frameworks of central government, including SAAS, mean that all forms of fraud are seen as unacceptable. 	<p>We rebutted the risk of fraud related to the income streams from the Scottish Government given the nature of the funding received. We agreed the amounts of the parliamentary funding and confirmed it's receipt through SEAS.</p>

Audit plan identified risk and work completed	Our conclusion
<p>Completeness of employee remuneration</p> <p>A large proportion of expenditure incurred by SAAS relates to the payment of employees and agency staff.</p> <p>Work undertaken: Completed walkthrough of the controls and procedures in place around the relationship between the Scottish Government payroll and SAAS and general payment and recording of payroll.</p> <p>Analytically reviewed payroll expenses in comparison to expectations.</p> <p>Substantively tested SEAS payroll as well as agency staff.</p> <p>Reviewed the relevant disclosures relating to staff costs within the remuneration report.</p>	<p>We are satisfied that the amounts recorded in SEAS for SAAS staff payroll expenditure is appropriate and complete.</p> <p>The payroll information (including agency costs) were substantively tested including cross checks to establishment listings with no issues identified.</p> <p>The accrual for employee benefits is generated from annual leave not taken and flexible working time credits and it was substantively tested with no issues found in the calculation.</p> <p>We did not identify any issues with the relevant disclosures relating to staff costs within the remuneration report.</p>
<p>Completeness of operating expenditure</p> <p>Operating expenses are understated or not recorded in the right period. This risk also relates to Practice Note 10 (revised) in respect of public sector entities which outlines that auditors should also consider the risk that misstatement may occur by the manipulation of expenditure recognition (Fraud risk).</p> <p>Work undertaken: Completed walkthrough of the controls and procedures in place around purchase ordering, procurement and general payment and recording of expenditure.</p> <p>Reconciled creditors ledger to the general ledger and financial statements.</p> <p>Performed cut-off testing on pre-year end and post year end transactions to gain comfort around the completeness and accuracy of recognised expenditure.</p> <p>Gained comfort around the regularity of expenditure and the application of public funds in accordance with the FReM and various legal acts as set out in SAAS's direction from Ministers.</p>	<p>We have concluded through the performance of our year end procedures that the expenditure was incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers and that the expenditure was valid and correctly classified.</p> <p>Through our pre and post year end cut off testing we did not identify any expenditure that was incorrectly accounted for.</p> <p>Larger areas of expenditure and accruals were substantively tested and no issues identified, with the exception of £13,000 of trade payables. The Agency is not able to provide a breakdown of this balance from SEAS. The Agency has agreed to work with Scottish Government to provide an appropriate audit trail for this balance in the future. Action 1</p>

The narrative elements of your annual report and accounts

In accordance with our responsibilities we have reviewed your narrative aspects of the Annual Report and Accounts. We have considered the consistency of this narrative with our understanding of SAAS and the financial information set out in the accounts and have set out our observations below.

Annual Report

- Overall the Annual Report was fair, balanced and understandable and following our observations it was updated to reflect on staff engagement and to provide additional narrative on how the Agency is addressing its relatively high levels of sickness absence.
- The report includes a detailed financial analysis of SAAS's in-year performance. Following discussion with management, the financial review section was updated to make it clear that the accounts only covered the Agency's administration but that the performance review also covered programme scheme activities and its related financial activity is accounted for through the Scottish Government's core accounts.
- In line with best practice performance reports it includes an upfront statement by the Accountable Officer.

Governance Statement

- All key required elements within the FReM are included within the Governance Statement.
- Executive directors provide certificates of assurance to the Chief Executive/ Accountable Officer. This provides him with overall robust assurance to support the governance statement disclosures. This approach is in line with best practice and provides a clear paper trail behind the annual governance process.
- The risk and control framework is effectively summarised and covers key risk areas around enhancing its risk management arrangements and business continuity management.

Remuneration report

- The remuneration report has been completed in line with guidelines and the FReM.
- We have audited the financial information included in the remuneration report (marked audited information). We have no matters we wish to bring to your attention.



Judgements and estimates

We consider other aspects of your annual report and accounts, in particular key areas of judgement. We have summarised below our observations in these key areas:

Accounting Policies

- Accounting policies are in accordance with the Financial Reporting Manual (FRoM) and we consider these to be appropriate to SAAS and have been applied consistently in practice.

Accounting estimates and judgements

- We have identified and gained comfort over the following key estimates and judgements:
 - Plant, Property and Equipment (PPE) depreciation policies are in line with prior year and the FRoM
 - Intangible asset amortisation policies are in line with prior year and the FRoM.

Going Concern

- SAAS has an agreed budget for 2017/18 and continues to discuss future funding with the Scottish Government. Given the nature of the services delivered by SAAS which are set out in various legislation we have no reason to doubt that SAAS won't continue to operate beyond 12 months of the date of our opinion. SAAS has a new Corporate Plan to 2020 and is currently working on a medium term financial strategy.

Timing of transactions and period in which they are recorded (Cut off assertion)

- Through our substantive audit testing we did not identify any concerns over timing of transaction or the period in which they were recorded.

Impact on the financial statements of any uncertainties

- No uncertainties have been identified which have an impact on the final annual report and accounts.

Financial management and future financial sustainability



Financial management and monitoring

Throughout the year financial performance compared to budget is reported to the Agency's executive Team, the Board and on a quarterly basis to the Audit and Risk Committee. These reports are detailed, and are clear on associated risks and consequences. Narrative is appropriately split out across funding, revenue and capital expenditure. These reports also show the programme spend on Higher Education Student Support and Nursing Bursary as the Agency manages these areas on Scottish Government's behalf.

The budget approved by the Scottish Parliament for the Agency's revenue operating costs was £11.973m and the actual outturn position was £11.869m. The accounts also include additional expenditure of £0.515m for central government costs and the audit fee which is allowed for in the Scottish Government's budget.

Total operating costs for the year reduced by 1.9% from 2015-2016, represented by an increase in running costs of 3% and a reduction in asset depreciation charges of 54%. The reduction in depreciation was driven by a delay on the student funding project so full depreciation as budgeted not applied. Overspend of £107,000 on staff was largely offset by an underspend of £94,000 on IT related expenditure.

Overall, running costs were within budget by £0.003m or 0.03% and depreciation by £0.616m or 56% bringing total operating costs within budget by £0.619m or 5%. Capital expenditure for the year was £1.066m against a budget of £1.5m, which represents 71% of the available budget being invested in assets used by the Agency. The main reasons behind the capital programme slippage are less investment in hardware and software and a lower spend on the SAAS Account project than anticipated.

2017/18 Budget

SAAS secured additional 'baseline' revenue budget from 2017/18 for operating costs of £1.3m, the original budget shortfall for 2016/17. This has been a step forward for the Agency in terms of its ability to recruit on a timely basis as opposed to having to wait until mid-year additional funding had been secured.

The Scottish Government published its Budget Bill for 2017-2018, on 27 January 2017. The Higher Education Student Support (HESS) budget provides funding to cover expenditure associated with delivering student support to both full-time and part-time, undergraduate and postgraduate students in Higher Education, and funding for the operation of SAAS. In 2017-2018, the Agency will be accountable for £11.6m of revenue and £2m of capital operating costs. The SAAS budget was presented to the Agency Board meeting on 24 May 2017 for discussion.

The budget demonstrated that SAAS can for 2017/18 manage its operating expenditure to deliver the strategic priorities, within the level of funding available. As outlined above, the Budget for 2017/18 has been published by the Scottish Government and SAAS is working with them on budget requirements for 2018/19 and 2019/20.

No formal efficiency target has been set by the Scottish Government but there is an expectation that SAAS will continue to identify and deliver efficiencies year on year. Therefore, SAAS has identified that it will need to make savings for 2017/18 of £0.4m to absorb increased salary and other costs. These have been built into the 2017/18 annual budget.

Plans from all of the agency's divisions have been submitted and costed and have been refined to match to available budget and the priorities articulated in the Agency's Corporate Plan, as updated in June 2017.

Medium to longer term financial forecasting

We acknowledge that the Agency as an Executive of the Scottish Government is on an annual budget cycle. However, we do see scope in the Agency developing a medium term aspirational financial plan to align to its “Strategy Towards 2020, delivering an excellent and personalised student experience” and the related Corporate Plan 2017–2020. **(Action 2)**

The comprehensive Corporate Plan 2017-2020 launched in June 2017, sets out SAAS objectives and key actions for 2017-2018 and provides a look ahead to its medium term priorities covering the period 2018-2020. It also defines a structured programme of improvement aimed at:

- increasing the efficiency of its service;
- enhancing the experience of its customers; and
- supporting the Scottish Government’s aim to tackle inequality.

The resourcing of this plan is only up to March 2018, with the revenue operating costs of £11.6m and capital operating costs of £2m. The Agency could benefit from modelling a number of financial scenarios up to March 2020. This could cover a range to deliver on all of its ambitious strategic priorities through to continuing to provide all the services as it does now. **(Action 2)**

There are risks in delivering this Corporate Plan, which are well articulated within it. However, there are opportunities for the Agency to explore options for future ways to generate efficiencies, within the parameters of the new Corporate Plan and supporting strategies. It is important management ensure that sufficient skills and capacity are in the organisation to deliver on these corporate priority areas.

Capacity and capability

The Agency has put in place a Workforce Planning Group who meet monthly to consider workforce requirements and approve appointments, and it has a costed Workforce Plan in place for 2017/18. Wider plans and a more detailed framework for the longer-term is being developed alongside the corporate planning work and will be subject to an Internal Audit review in Spring 2018. **(Action 3)**

The Finance function is overseen by a Director of Finance, who is a member of the Agency’s Executive Team and Board. She is supported by a Finance Manager who is a member of the Agency’s Leadership Group. At the time of our audit the finance team did not have any vacancies and we consider the team to have sufficient financial skills and capability to ensure an appropriate financial control environment operates.

Appendices

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Audit adjustments

Over the course of the audit, we identified no misstatements and therefore we have no corrected or uncorrected misstatements to disclose.

Uncorrected misstatements

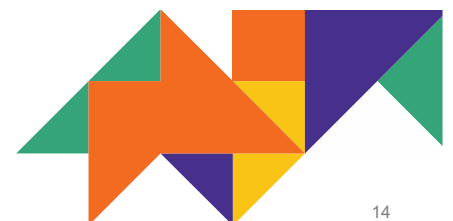
	£000	£000	£000
None	-		-

Corrected misstatements

	£000	£000	£000
None	-		-







Disclosure misstatements

In accordance with auditing standards we are required to highlight significant disclosure misstatements to allow audit committees to evaluate the impact of these matters on the financial statements. During the course of our audit process we identified some minor disclosure enhancements to the performance and accountability reports as well as within the financial statements. There were no material and/or significant disclosure misstatements identified we wish to bring to your attention.



Follow up on prior year recommendations

We have undertaken a follow up of outstanding recommendations from prior years raised by the previous external auditors, Audit Scotland. The results of our work are outlined below:

Prior year finding	Action in 2016/17	
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 register.	SAAS has undertaken work to strengthen the asset inventory and other asset records as part of the Service Desk Improvements and ITIL development work. As part of our audit work, we reviewed the fixed asset register and agreed the manual adjustments required to reconcile it with the ledger position.	 Green
SAAS should review whether these assets can be re-classified on the non current assets register.	SAAS carried out a full review in year to confirm content and classifications. As part of our audit work on both intangible assets and property, plant and equipment, we identified a large amount of disposals on the fixed asset register, which we tested with no issues arising.	 Green
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.	SAAS secured additional 'baseline' revenue budget from 2017/18 for operating costs of £1.3m, the original budget shortfall for 2016/17. Budget for 2017/18 has been published by the Scottish Government and SAAS is working with SG on budget requirements for 2018/19 and 2019/20, still to be published.	 Amber
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.	An updated Corporate Plan has now been completed that details SAAS plans for 2017-20. SAAS has also published a Corporate Strategy, Toward 2020, in March 2017.	 Green
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 was appointed by the Agency, who has developed business continuity arrangements and plans. An interim report was tabled at the Audit and Risk Committee on 03 May 2017. This will be followed up by the completed report in Autumn 2017.	 Green
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.	The Agency has put in place a Workforce Planning Group who meet monthly to consider workforce requirements and approve appointments, and it has a costed Workforce Plan in place for 2017/18. Wider plans and a more detailed framework for the longer-term is being developed alongside the corporate planning work and will be subject to an Internal Audit review in Spring 2018.	 Amber

 Not implemented (red)
  Partially implemented (amber)
  Fully implemented (green)

Action Plan for 2016/17

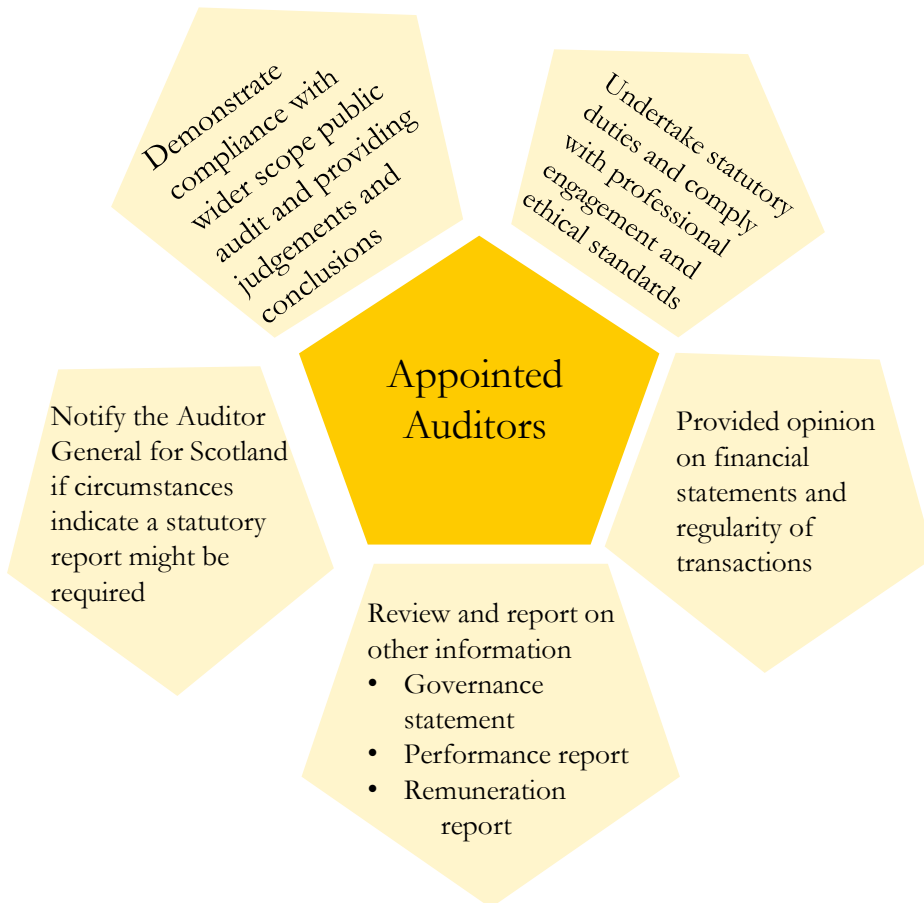
During the course of our 2016/17 audit work we have identified the following actions for management:

	Area	Issue & Risk	Priority	Recommendation
	Accounts			
1	Trade payables (Page 7)	Larger areas of expenditure and accruals were substantively tested and no issues identified, with the exception of £13,000 of trade payables. The Agency is not able to provide a breakdown of this balance from SEAS. The Agency has agreed to work with Scottish Government to provide an appropriate audit trail for this balance in the future.	Medium	<p>Obtain a breakdown of trade payables from the SEAS system which will allow a full audit trail to support this balance</p> <p>Management response: We will work with Scottish Government to gain access to analysis of the SEAS Purchase Ledger Control Account for SAAS.</p> <p>Timescale: 31 March 2018</p> <p>Action Owner: Audrey Shimmons</p>

	Area	Issue & Risk	Priority	Recommendation
	Limited wider scope review			
2	Financial Management - Medium to longer term financial forecasting (Page 12)	<p>We acknowledge that the Agency as an Executive of the Scottish Government is on an annual budget cycle. However, we do see scope in the Agency developing a medium term aspirational financial plan to align to its “Strategy Towards 2020, delivering an excellent and personalised student experience” and the related Corporate Plan 2017–2020.</p> <p>This is linked to a previous recommendation raised by Audit Scotland in 2015/16 as outlined on page 15.</p>	Medium	<p>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.</p> <p>Management response: We will work on this during 2017-18 with a view to including in our budget planning arrangements from 2018-19.</p> <p>Timescale: March 2018</p> <p>Action Owner: Audrey Shimmons</p>
3	Capacity and capability (Page 12)	<p>The Agency has put in place a Workforce Planning Group who meet monthly to consider workforce requirements and approve appointments, and it has a costed Workforce Plan in place for 2017/18. Wider plans and a more detailed framework for the longer-term is being developed alongside the corporate planning work and will be subject to an Internal Audit review in Spring 2018.</p> <p>This is linked to a previous recommendation raised by Audit Scotland in 2015/16 as outlined on page 15.</p>	Medium	<p>Develop workforce planning to include an organisation-wide workforce plan covering medium to long term forecasts of staff numbers, costs and skills.</p> <p>Management response: We will continue our work to align workforce planning with budget planning arrangements from 2018-19.</p> <p>Timescale: March 2018</p> <p>Action Owner: Keith Jenkinson & Audrey Shimmons</p>

D Reminder of Responsibilities and audit fees

The Code of Audit Practice sets out responsibilities of the audited body (pages 10, 11 and 12) across: Corporate governance; financial statements and related reports; standards of conduct for prevention and detection of fraud and error; financial position; and value for money (as described in the Scottish Public Finance Manual). As appointed auditors our responsibilities are set out on page 13 and are summarised below.



An audit of the financial statements is not designed identify all matters that may be relevant to those charged with governance. Weaknesses or risks are only those that have come to our attention during our normal audit work in accordance with ISAs and the Code and may not be all that exist.

Communication of the matters arising from our audit work does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control. We have requested a standard letter of representation from the Agency. The Agency has not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work. We have not been made aware of any incidents of fraud or corruption, from the Agency activity perspective, in the period and no other issues have been identified during the course of our audit procedures.

Audit Fees

	Planned fee £	Actual fee £
External Auditor Remuneration	16,790	16,790
Pooled Costs and contribution to Audit Scotland	5,120	5,120
Total	21,880	21,880

The audit fee is calculated in accordance with guidance issued by Audit Scotland. Your total fee for the 2016-17 external audit is £21,880, which is no change from what we reported in our Audit Plan back in February 2017. Note we have not carried out any other audit or non-audit related work for the Agency in 2016/17.





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This proposal is made by Grant Thornton UK LLP and is in all respects subject to the negotiation, agreement and signing of a specific contract/letter of engagement. The client names quoted within this proposal are disclosed on a confidential basis. All information in this proposal is released strictly for the purpose of this process and must not be disclosed to any other parties without express consent from Grant Thornton UK LLP.

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