

External Audit Report for Student Awards Agency Scotland

Financial year ended 31 March 2021

Prepared for the Accountable Officer, the Board of Student Awards Agency Scotland and the Auditor General for Scotland

Final External Audit Report – 25 October 2021



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our external audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect SAAS or all weaknesses in your internal controls. This report has been prepared solely for your benefit and Audit Scotland (under the Audit Scotland Code of Practice 2016). We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Key messages

This is our final report to the Accountable Officer, the SAAS Board and the Auditor General For Scotland and concludes our audit on the financial year ended 31 March 2021. We have issued an unmodified audit opinion on the annual report and accounts, including an unmodified opinion on regularity and the Remuneration Report. We thank management for all their assistance during the audit process.

03 Wider Scope Audit

In accordance with the Code we determined that SAAS meet the definition of a smaller body. This is based on SAAS income only coming via Scottish Government Funding, a higher proportion of expenditure is staff costs and the financial statements are considered less complex.

In accordance with the Code we have concluded in this report on your governance statement and SAAS's financial sustainability arrangements. During our audit we did not identify any further areas of wider scope risk.

01 Materiality

We re-calculated our materiality based on the unaudited annual report and accounts. The benchmark of 2% of gross expenditure remained the same. This resulted in:

- Materiality of £270,680 and a performance materiality (75% of materiality) of £203,010
- All audit adjustments above £13,500 were reported to management and captured in this report.
- Lower materiality of banding on Staff Remuneration Report (being £1,000)

04 Other audit matters

Our final report summarises a number of other audit matters, including:

- We have concluded that SAAS meets the definition of a going concern, reflecting on FRC Practice Note 10 considerations.
- The accounts contain limited estimation and judgement. Estimates included depreciation and amortisation of property, plant and equipment and intangibles where we agreed the basis for the calculation is reasonable, with no indication of management bias.
- During the course of our work we did not identify fraud and/or material error.

02 Financial statement audit risk

At planning, in accordance with the ISAs (UK) and FRC Practice Note 10 we have identified the following significant financial statement audit risks:

- Management override of controls (ISA UK 240)
- Risk of fraud in revenue expenditure (cut-off) (FRC PN10)
- We have rebutted the risk of fraud in revenue recognition as all funding is from the Scottish Government, via an agreed budget allocation.

We have no matters to bring to your attention arising from our work over these significant audit risks.

05 Our Audit Fee

Our final audit fee of £24,410 was our final audit fee. There were no non-audit services (fees) during the year and we did not need to vary our agreed fee.

Introduction

Scope of our audit work

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2021 at SAAS. The scope of our audit was set out in our External Audit Plan communicated to the Audit and Risk Committee on the 24 February 2021 and finalised and submitted to SAAS on the 31 March 2021.

The main elements of our audit work in 2020/21 have been:

- An audit of SAAS's annual report and accounts for the financial year ended 31 March 2021; and
- Consideration financial sustainability and the Governance Statement, as required under the smaller body classification, within the Audit Scotland Code of Practice (2016).

Our work has been undertaken in accordance with International Standards of Auditing (ISAs) (UK) and the Code.

This report is addressed to the SAAS Board and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Responsibilities

SAAS is responsible for preparing an annual report and accounts which show a true and fair view and that are in accordance with the accounts direction from Scottish Ministers. SAAS is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity that enable it to successfully deliver its objectives.

The recommendations or risks identified in this report are only those that have come to our attention during our normal audit work and may not be all that exist. Communication in this report of matters arising from the audit 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.

Adding value through our audit work

We aim to add value to SAAS throughout our audit work. In delivering our audit we use a dedicated public sector audit team. This ensures our team have a comprehensive understanding of SAAS and the wider public sector to focus on key areas of risk relevant to your financial statements. As a result of the social distancing and travel restrictions implemented in response to the Covid-19 pandemic our audit work was delivered remotely. We continue to share recommended practices with management, where relevant, and contribute to wider discussions at the Audit and Risk Committee during the year.

Audit of the annual report and accounts

Key messages and judgements

We have issued an **unmodified** audit opinion on the annual report and accounts.

There were no adjustments to the primary financial statements. We raised a number of minor disclosure adjustments identified from our review of the annual report and accounts. We do not consider these to be material. Further details are provided in Appendix 2.

We would like to thank management for all their assistance during the year in ensuring the delivery of the audit, to the timescales agreed at the start of the financial year.

Our audit opinion

For the financial year ended 31 March 2021 we have issued an **unmodified opinion** on the annual report and accounts. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework;
- expenditure and income were regular and in accordance with applicable enactments and guidance; and,
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The audit process

In accordance with our annual external audit plan, our audit work commenced in June 2021. We received the draft primary financial statements in line with our agreed timetable. The quality of the unaudited annual report and accounts was good and disclosures complete.

The Scottish Government (payroll services) provide SAAS's payroll. To support our audit, evidence is required from the Scottish Government to substantiate payroll and remuneration transactions and balances in the accounts. During 2020/21 there were delays in receiving this information from the Scottish Government. Consequently, there were delays in finalising our audit procedures over payroll costs and remuneration report disclosures.

There were no audit adjustments to the draft primary financial statements. There were no unadjusted misstatements to the accounts. We also identified a number of disclosure adjustments in respect of the draft financial statements. A full listing of disclosure misstatements is detailed in Appendix 1.

Materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Our audit approach was set out in our audit plan communicated to the Audit and Risk Committee on the 24 February 2021 and finalised and submitted 31 March 2021. We updated our audit materiality to reflect the 2020/21 draft financial statements. It is set at £270,680, representing 2% of gross expenditure. Performance materiality was set at £203,010, representing 75% of our calculated materiality. We report to management any difference identified over £13,500 (Being 5% of overall materiality). We applied a lower materiality threshold for Directors Remuneration disclosures within the Remuneration and Staff Report to ensure that remuneration has been disclosed within the appropriate bandings (being £1,000).

Responding to significant financial statement risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan

Management override of controls

As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override SAAS's controls for specific transactions.

We consider those key judgements that are most susceptible to significant audit risk of management override are those over expenditure recognition. These are areas where management has the potential to influence the financial statement through estimate and judgement. This includes manual journals as well as critical judgements or estimates.

Commentary

- We considered the design of controls in place over key accounting estimates and judgements through performance of walkthrough procedures.
- We reviewed accounting estimates for management bias / indication of fraud that could result in material misstatement. This included review of estimates as at 31 March 2021 and retrospective review of those estimates as at 31 March 2020. This included amortisation of intangible assets and depreciation of property, plant and equipment and recognition of notional costs.
- Journals testing including:
 - Assessment of the design of controls in place over journal entries, including journal preparation, authorisation and processing onto the financial ledger;
 - Risk assessment of the journals population to identify large or unusual journal entries, such as those that are not incurred in the normal course of business, or those entries that may be indicative of fraud or error that could result in material misstatement. We tested these journals to ensure they are appropriate and suitably recorded in the financial ledger;
 - Target testing of transactions around the financial year end, reviewing large journals and those which appear unusual to understand the rationale for the transaction.

Conclusion

Through our audit procedures performed we found that there was no evidence of management override in our testing of transactions tested. We did not identify indication of fraud or inappropriate management bias in accounting estimates that could result in a material misstatement.

Risks identified in our Audit Plan

Risk of fraud in expenditure recognition (completeness)

As set out in Practice note 10 (revised) which applies to public sector entities we consider there to be an inherent risk of fraud in expenditure recognition. As payroll expenditure is well forecast and agreeable to underlying payroll systems, there is less opportunity for the risk of misstatement in this expenditure stream. We therefore focus on material non-pay expenditure streams including administration costs. We consider the risk to be particularly prevalent around the year end and therefore focus our testing on cut-off of these expenditure streams and the completeness of expenditure. Our testing includes a specific focus on year end cut-off arrangements, where it may be advantageous for management to show an enhanced/different financial position in the context of reporting in-year to Scottish Government and the need to achieve the financial targets set.

Commentary

- We performed walkthroughs of the controls and procedures over non-pay expenditure streams;
- Substantive testing of expenditure throughout the year to confirm its occurrence and accuracy of recording;
- Focused substantive testing of non-pay expenditure recognised post year end to identify if there is any potential understatement to address the risk of cut-off; and
- Review of accruals and payables, where material, around the year end to consider if there is any indication of understatement or overstatement of balances held through consideration of accounting estimates.

Conclusion

Through our audit procedures performed we did not identify any exceptions in our year end cut-off testing of expenditure. We did not identify any exceptions in the completeness and accuracy of accruals or payables balances at year end.

Through our substantive procedures and sample testing we did not identify any expenditure which was not in accordance with the nature of the SAAS (regularity testing).

Significant estimates and judgements


SAAS's annual report and accounts are considered straightforward and non-complex. There are no significant judgements or estimates, and this has been confirmed by Management and confirmed in our audit testing including review of disclosures. As identified in our external audit plan, we identified two areas of estimation.

| judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|--|--|--|------------|
| Depreciation and amortisation of property, plant and equipment and intangible assets | In accordance with the FReM SAAS recognise an annual depreciation charge on items of property, plant and equipment reflecting the cost/use of the assets over their useful economic lives. Similarly, SAAS amortise intangible assets over their expected useful economic lives. Management's assessment of useful economic lives (and subsequent depreciation and amortisation charges) is informed through Scottish Government guidance and Management's assessment of the expected useful life of each asset. | We have reviewed the depreciation and amortisation policies applied by SAAS and are satisfied that these are reasonable given the nature of assets held. We have performed analytical procedures to confirm that the charge in the year is in line with our audit expectation. | ● |

Assessment

- **Dark Purple** We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated.
- **Blue** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic.
- **Grey** We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious.
- **Light Purple** We consider management's process is appropriate and key assumptions are neither optimistic or cautious.

Other areas of estimation and judgement

| judgement or estimate | Summary of management's approach | Audit Comments | Assessment |
|-----------------------|---|--|---|
| Notional Cost | SAAS recognise Notional Costs of £540,000 within net operating expenditure in relation to service provided by the Scottish Government on SAAS's behalf which are not directly invoiced. Notional costs are kept under review and have been discussed with the Scottish Government to ensure they continue to represent an estimate of the costs of services provided. Notional costs are subsequently removed through changes in taxpayers equity and therefore have no net impact on the total recognised expenditure in the year. | We have reviewed the basis of the notional costs recognised in the financial statements and agreed these have been applied consistently with prior years with appropriate uplift for inflation. The costs have been reviewed to ensure these reflect services provided by the Scottish Government not directly invoiced. |  |

Internal control environment

In accordance with ISA requirements we have developed an understanding of the control environment in place within SAAS. Our audit is not controls based and we have not placed reliance on controls operating effectively as our audit is fully substantive in nature. We did this through a walkthrough of key controls within SAAS including payroll, expenditure and journals.

We identified no material weaknesses or areas of concern from this work which would have caused us to alter the planned approach as documented in our plan.

Detecting Irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to SAAS and determined that the most significant which are directly relevant to specific assertions in the financial statements are those related to the reporting frameworks; International Financial Reporting Standards and the 2020/21 HM Treasury Financial Reporting Manual (FRoM).
- We enquired of management and the Audit and Risk Committee, concerning SAAS's policies and procedures relating to the identification, evaluation and compliance with laws and regulations; the detection and response to the risks of fraud; and the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of management and the Audit and Risk Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of SAAS's financial statements to material misstatement, including how fraud might occur, by evaluating management's incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journal entries that altered SAAS's financial performance for the year and potential management bias in determining accounting estimates. Our audit procedures involved are documented within our response to the significant risk of management override of controls on Page 6.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. However, detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as those irregularities that result from fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, included the potential for fraud in expenditure recognition and significant accounting estimates.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - SAAS's operations, including the nature of its operating revenue and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - SAAS's control environment, including the policies and procedures implemented to ensure compliance with the requirements of the financial reporting framework.

Other key elements of the financial statements

As part of our audit there were other key areas of focus during the course of our audit. Whilst not considered a significant risk, these are areas of focus either in accordance with the Audit Scotland Code of Audit Practice or ISAs or through due to their complexity or importance to the user of the accounts.

| Issue | Commentary |
|---|---|
| Matters in relation to fraud and irregularity | It is SAAS's responsibility to establish arrangements to prevent and detect fraud and other irregularity. As auditors, we obtain reasonable assurance that the financial statements as a whole are free from material misstatement, whether due to fraud or error. We obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement. We have also made inquires of internal audit around internal control, fraud risk and any known or suspected frauds in year. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures. |
| Accounting practices | We have evaluated the appropriateness of SAAS's accounting policies, accounting estimates and financial statement disclosures. Disclosures and accounting policies are in line with the FReM and we have no matters to report. |
| Matters in relation to related parties | We are not aware of any related parties or related party transactions which have not been disclosed. |
| Matters in relation to laws and regulations | You have 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. |
| Other information | <p>We are required to give an opinion on whether the other information published together with the audited financial statements (including the Annual Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.</p> <p>No inconsistencies have been identified and we plan to issue an unmodified opinion in this respect.</p> |
| Opinion on other aspects of the annual report and accounts | <p>We are required to give an opinion on whether the parts of the Remuneration Report and Staff Report subject to audit have been prepared properly in accordance with the requirements of the FReM, and the Accounts directions thereunder. We have audited the elements of the Remuneration Report and Staff Report , as required and are satisfied that these have been properly prepared in accordance with applicable legislation.</p> <p>The information given in the Performance Report is consistent with the financial statements and that report has been prepared in accordance with the FReM and directions made thereunder by the Scottish Ministers. The information given in the Governance Statement is consistent with the financial statements and that report has been prepared in accordance with the directions made thereunder by the Scottish Ministers.</p> |

| Issue | Commentary |
|--|--|
| Governance statement | <p>The governance statement is included within the Accountability Report. The report outlines the governance framework in place at SAAS. The Report includes the Statement of the Accountable Officer's responsibilities and had been prepared in accordance with the FReM. In accordance with the Scottish Public Finance Manual (SPFM), the Accountable Officer has a specific responsibility to ensure that arrangements have been made to secure Best Value and this is confirmed in the narrative in the annual report and accounts. There was no matters arising from our review of the governance statement that we want to draw attention to.</p> |
| Matters on which we report by exception | <p>We are required by the Auditor General for Scotland to report to you if, in our opinion: adequate accounting records have not been kept; or the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or we have not received all the information and explanations we require for our audit there has been a failure to achieve a prescribed financial objective. We have nothing to report in respect of these matters.</p> |
| Written representations | <p>A letter of representation has been requested from the Board (and Accountable Officer), including specific representations, which is included in the Audit and Risk Committee papers. Specific representations have been requested from management in line with prior years and confirms as auditors all records have been made available to us.</p> |
| Going concern | <p>In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies.</p> <p>Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by SAAS meets this criteria, and so we have applied the continued provision of service approach. In accordance with Audit Scotland guidance: Going concern in the public sector, we have therefore considered Management’s assessment of the appropriateness of the going concern basis of accounting and conclude that: a material uncertainty related to going concern has not been identified; and, management’s use of the going concern basis of accounting is appropriate.</p> |
| Regularity | <p>The Accountable Officer is responsible for ensuring the regularity of expenditure and income. We are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000. In our opinion 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.</p> |

Wider scope audit – Smaller body

As set out in our Audit Plan, SAAS meets the definition of a smaller body in accordance with the Audit Scotland Code of Practice (2016). Therefore, as auditors we are required to include in our annual report commentary on arrangements as they relate to financial sustainability and the Governance Statement. Our work on the governance statement, and conclusions are set out on page 8 and 9 of this report. Below we have captured our commentary and conclusions on financial sustainability and other matters of interest during the year.

| Wider scope dimension | Wider scope risk identified in our audit plan | Wider scope audit response and findings | Grant Thornton conclusion |
|---|--|--|--|
| Financial Sustainability, (as applicable to a smaller body) | No significant risks identified within our audit planning. | <p>For 2020/21 SAAS reported an underspend of £262,000 against its annual revenue budget of £13.017 million and an underspend of £82,000 against its capital budget of £1.4 million. The underspend of £344,000 was primarily driven by reduction in costs as a result of the Covid-19 pandemic. This included reduced office costs with staff working from home, cessation of work-related travel, and the deferral of project related expenditure to future years as a result of reprioritisation of resources in response to the pandemic.</p> <p>The SAAS Corporate Plan (2020-2025) sets out the Agency’s ambitions over the five year period with a focus on three strategic themes: informing choices; funding futures; and, supporting success. Underpinning the Corporate Plan is the annual budget process. SAAS receive annual funding allocations from the Scottish Government and therefore budget process is predominantly focused for a single financial year. However, as part of the overall spending review SAAS have prepared financial projections to 2026/27. This includes Student Support and Tuition Fee payments that are not funded by SAAS. The 2021/22 budget has forecast spend of £14.452 million, including £1.6 million in capital. Over the medium to longer term SAAS recognise the challenge in delivering strategic outcomes within available Scottish Government finances. The 2021/22 Budget includes efficiency savings target of £242,000.</p> | <p>Through our audit procedures we have not identified any significant risks in relation to SAAS’s financial sustainability.</p> <p>SAAS recognise the pressure of operating within the annual resource funding envelop of circa £14 million while continue to reform its services, including digitalisation of service delivery to continue to enhance the services offered to service users.</p> |

| Wider scope dimension | Wider scope risk identified in our audit plan | Wider scope audit response and findings | Grant Thornton conclusion |
|--|--|---|---|
| Governance arrangements (Audit Scotland planning guidance consideration) | No significant risks identified within our audit planning. | <p>Governance</p> <p>During Covid SAAS’s governance arrangements continued to operate as intended, and as in prior year. The Board and supporting Committees were held remotely through video conferencing. During 2020/21 there was a degree of change across senior management within SAAS. In August 2020, Anne Ward retired from her post as Director of Operations. In July 2020 Laurena Charles took up the position as Director of People and Performance, a new role created in EMT. In February 2021 David Robb, SAAS Chief Executive, accepted a temporary appointment to another Scottish Government agency. Lauren McNamara has been appointed as Interim Chief Executive who fills this role alongside her existing role as Director of Strategy and Operations.</p> <p>The SAAS Chief Executive is supported by the Executive Management Team (EMT) who are responsible for strategic decision making and operational delivery. The EMT support the work of the Board which includes five Non-Executive Members. The Board and chief Executive are further supported by the Audit and Risk Committee who advise on the adequacy of risk management, internal control and governance arrangements and the efficient and effective use of public funds.</p> <p>While we did not identify any concerns around SAAS’s governance arrangements, there is an opportunity for the Board and Committees to undertake a regular self-assessment to review their ongoing effectiveness and encourage continuous improvement.</p> | Governance arrangements operated effectively during the year. We have raised an audit recommendation (appendix 2) around opportunities for the Board and Committees to undertake a self-assessment to review their effectiveness and encourage continuous improvement in governance arrangements. |

Appendices

1. Audit Adjustments

We are required to report all non trivial misstatements, whether or not the accounts have been adjusted by management. We are pleased to report there were no corrected or uncorrected misstatements to the financial statements arising during our audit.

Misclassification and disclosure changes

The table below provides details of substantive misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

| Disclosure | Auditor recommendations | Adjusted? |
|------------------------|--|---|
| Intangible assets note | Intangible assets disclosure note (Note 4) was updated to correct a £2,000 opening balance rounding difference to be included within movements in the year to reconcile with primary statements and underlying ledger. Note no impact on overall primary statements. | ✓ |
| Audit Fee | The External Audit fee in the draft accounts should be updated to report as £24,000 rather than the £23,000 to be consistent with the total audit fee for the year. (disclosure only) | ✓ |
| Annual Report | In accordance with the FReM a number of presentational adjustments were required to the Annual Report including Performance Overview, Performance Analysis and Accountability Report sections of the annual report. This included: Providing overview of sections of the report and greater alignment / read across between each section; Updating Statement of Accountable Officer's Responsibilities to reflect recommended wording in the FReM; and, Providing greater clarity around those sections of the Remuneration Report subject to audit. | ✓ |
| Cash flow statement | The Cash Flow statement includes adjustment for non-cash items which is a material line in a primary statement. We would recommend that a note is added to the accounts to provide the reader with greater understanding of the content of this line. | Partly – Narrative has been added to the financial statements to provide the reader understanding of contents of this adjustments but does not include values. Audit are satisfied that this is not material to the financial statements. |

| Disclosure | Auditor recommendations | Adjusted? |
|---|---|---|
| Cash flow statement | The Cash Flow statement includes adjustment for non-cash items which is a material line in a primary statement. We would recommend that a note is added to the accounts to provide the reader with greater understanding of the content of this line. | Partly – Narrative has been added to the financial statements to provide the reader understanding of contents of this adjustments but does not include values. Audit are satisfied that this is not material to the financial statements. |
| Property, plant and equipment and Intangible assets | Accounting policy for Property, plant and equipment and Intangible assets should be updated to reflect the requirements of the FReM and the current accounting treatment adopted by SAAS for these assets. | ✓ |
| Financial Instruments | Note 11 to the financial statements to be updated to reflect the required disclosures in relation to financial instruments held including financial liabilities and financial assets. SAAS should also update disclosures to reflect the requirements of IFRS 7 around financial instruments disclosures. | ✓ |
| Notional costs | The financial statements include notional costs representing charges for services provided by the Scottish Government and represent the Agency’s share of these. The accounts should include a description of the notional costs recognised by SAAS and the basis of recognition and accounting policy surrounding these. | Partly - The Annual Report includes a description of the notional costs. However, there is no explicit accounting policy on these. Management are in the process of reviewing the basis of recognition of these as part of 2021/22 accounting period. Audit are satisfied that this is not a material omission to the financial statements. |

2. Action plan and recommendations

We have set out below, based on our audit work undertaken in 2020/21, the one significant recommendation arising from our audit work.

Recommendation

1. Board and committee effectiveness self assessment

Through our review of Board and committee minutes during the year we noted that there was no formal review of effectiveness or self assessment of performance of the Board / Committee. The Scottish Government's *On Board: A guide for members of statutory boards* includes recommended guidance around board self-assessment to ensure they continue to look at opportunities to operate as efficiently and effectively as possible. We recommend that SAAS consider undertaking a regular self-assessment of the Board and Committees to look at opportunities for continuous improvement in the functioning of governance arrangements.

Agreed management response

Action owner: Head of Strategic Development

Timescale for implementation: 31st December 2021

3. Follow up of 2019/20 recommendations

We set out below our follow up of our 2019/20 recommendations and these are reflected below for information.

Payroll

SAAS use the Scottish Government Payroll shared service. At year end, and as part of our interim testing we encountered difficulties in testing payroll information back to underlying payroll records. Given SAAS payroll costs are circa 75% of expenditure this is a key area of substantive testing. Whilst we recognise the challenges through remote working and Covid-19, an alternative solution needs to be agreed between SAAS and the payroll team to support the 2020/21 audit process. Otherwise audit delays will be experienced.

Responsible office: Director of Finance

Initial management response: Agreed. The difficulties encountered between the External Audit team and the Scottish Government Payroll Team will be reviewed for the 2020/21 audit. The delays in receiving payroll audit evidence did delay the sign off of the SAAS accounts and a more effective and efficient process needs to be in place going forward. Agreed deadlines for the information will be set with Scottish Government Payroll for delivery

Follow up: ONGOING

As part of our audit planning for 2020/21 External Audit, working with SAAS finance team, submitted requests for payroll information in March 2021, in advance of the audit. SAAS management also liaised with the Scottish Government in advance of the year end. However, there continued to be delays in providing the information to support the audit of the financial statements. It is important that to support the audit of the 2021/22 financial statements, SAAS seek to work with Scottish Government payroll team to ensure they have more timely receipt of the payroll information required to support the audit process.

4. Audit fees and independence

External Audit Fee

| Service | Fees £ |
|--|---------------|
| External Auditor Remuneration | 18,850 |
| Pooled costs | 4,760 |
| Contribution to Audit Scotland costs | 800 |
| Contribution to Performance Audit and Best Value | Nil |
| 2020/21 Fee | 24,410 |

Our final audit fee includes an uplift of £600 from our proposed fee included in the draft audit plan reflecting the delayed audit work required over Scottish Government payroll.

Fees for other services

| Service | Fees £ |
|--|--------|
| We confirm that for 2020/21 we did not receive any fees for non-audit services | Nil |

Independence and ethics

- We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.
- We have complied with the Financial Reporting Council's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.
- We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.
- We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.
- We can confirm no independence concerns have been identified.

Client service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact John Boyd, Engagement Lead (johnpboyd@uk.gt.com) or Joanne Brown, Head of Public Sector Assurance Scotland who oversees our portfolio of Audit Scotland work (joanne.e.brown@uk.gt.com). Alternatively, should you wish to raise your concerns further please contact Jon Roberts, Partner and Head of Assurance, 30 Finsbury Square, London, EC2A 1AG. If your feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to Elaine Boyd, Assistant Director, Audit Scotland Quality and Appointments in accordance with the Audit Scotland audit quality complaints process.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see [Transparency report 2020 \(grantthornton.co.uk\)](https://www.grantthornton.co.uk/transparency-report-2020)

5. Communication of audit matters

International Standards on Auditing (UK) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table below.

| Our communication plan | Audit Plan | Audit Findings |
|---|------------|----------------|
| Respective responsibilities of auditor and management/those charged with governance | • | |
| Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks | • | |
| Confirmation of independence and objectivity | • | • |
| A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence | • | • |
| Significant matters in relation to going concern | • | • |
| Views about the qualitative aspects of SAAS's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures | | • |
| Significant findings from the audit | | • |
| Significant matters and issues arising during the audit and written representations that have been sought | | • |
| Significant difficulties encountered during the audit | | • |
| Significant deficiencies in internal control identified during the audit | | • |
| Significant matters arising in connection with related parties | | • |
| Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements | | • |
| Non-compliance with laws and regulations | | • |
| Unadjusted misstatements and material disclosure omissions | | • |
| Expected modifications to the auditor's report, or emphasis of matter | | • |



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