

# **Student Awards Agency for Scotland Report on the 2005/06 Audit**

**15 November 2006**



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

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# Executive Summary

## Introduction

This report summarises the work undertaken and the issues arising from the audit of the Student Awards Agency for Scotland (SAAS) for the year to 31 March 2006. Our audit responsibilities and approach are as outlined in our Audit Planning Memorandum for the year and can be summarised as being to assess:

- whether the financial statements give a true and fair view, and if the expenditure and receipts were in accordance with guidance and legislation;
- SAAS's corporate governance arrangements, including the adequacy of the main financial systems and the arrangements in place for the prevention and detection of fraud and corruption; and
- aspects of SAAS's arrangements to manage its performance.

## Audit findings and conclusions

We were able to conclude that

- SAAS's financial statements give a true and fair view of the financial position for the year ended 31 March 2006 and that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and relevant guidance. The financial statements were reviewed by the Audit Committee on 30 June 2006 and subsequently signed by the Chief Executive on 8 September 2006.
- SAAS's corporate governance and control arrangements operated satisfactorily in the period under review as reflected in the Statement on Internal Control.

There were no significant issues arising from our audit that require to be specifically highlighted to the agency. All issues identified during the audit have been discussed with management and an action plan is attached at Appendix A for a few minor issues.

I would like to record my thanks to management and staff for their co-operation during the audit process.

Alastair Swarbrick CPFA  
Senior Audit Manager

# Main Findings

## Introduction

1. This report summarises the issues and findings of our audit, covering the results of our financial statements audit, together with the corporate governance areas identified in the Audit Planning Memorandum.
2. The audit was conducted to recognised audit standards. Interim work focused on the follow-up of previous reports and transaction testing as well as carrying out review and assessment of the control environment and internal controls. The financial statements audit builds on the results of the interim work and was designed to establish sufficient, relevant, reliable evidence to allow audit opinions covering the “true and fair view” and regularity aspects of the financial statements and also our duty to report on the Statement on Internal Control and Foreword as appropriate.
3. In addition we followed up the audit risks identified in the Audit Planning Memorandum.

## Management action

4. As appropriate, detailed recommendations on those areas where further improvement could be achieved are included in the action plan included in this report.
5. This report to management sets out our findings from the review carried out. The weaknesses outlined are only those which have come to our attention during the course of our normal audit work and are not necessarily, therefore, all the weaknesses which may exist.
6. It is the responsibility of management to determine the extent of the internal control system appropriate to SAAS. We would stress, however, that an effective internal control system is an essential part of the efficient management of any organisation.
7. We have agreed with relevant officers the contents of this management letter to confirm factual accuracy. We would also like to record my thanks to management and staff for their co-operation during the audit process.

## Financial Statements

### Audit opinions

8. We have obtained sufficient, reliable, relevant evidence that:
  - the financial statements provide a true and fair view of the state of affairs of the Agency as at 31 March 2006 and of the net operating costs, total recognised gains and losses and cash flows for the year then ended and have been properly prepared; and

- in all material respects the expenditure and receipts were incurred or applied in accordance with applicable guidance and enactments.

## Financial position / Financial outturn

9. The accounts show a total operating cost of £7.756m for 2005-06 (2004-05: £7.247m). This represents an increase of approximately 7% on the previous year. This increase is mainly due to increased staff costs from filling vacancies and increased employer pension contributions, and an increase in the depreciation charge.
10. The net assets of the Agency have decreased significantly, from £7.491m as at 1 April 2005 to £6.648m as at 31 March 2006, representing a decrease of approximately 12%. This is represented by a significant decrease in the net book value of the asset base linked to the increased depreciation charge and a significant increase in level of creditors.

## Unadjusted errors (ISA260)

11. International Auditing Standard 260 (ISA 260) "Communication of audit matters to those charged with governance" centres on the need for auditors to communicate matters relating to the audit of financial statements to those charged with governance of a body in sufficient time to enable appropriate action. In this context, there were no unadjusted errors in the financial statements identified from our audit which were not clearly trifling.

## Statement on Internal Control

12. The Agency was required to prepare a Statement on Internal Control (SIC) for 2005-06. We have a responsibility to review the Statement and ensure it complies with Scottish Executive guidance on statements on internal control and it is not misleading or inconsistent with other information we are aware of from our audit.
13. In line with previous years, we have concluded that there is a sound system in place to support the Accountable Officer signing the statement, in particular the Agency's risk management processes, and the operation of the Audit Committee. We are satisfied that the disclosures required by the relevant Scottish Executive guidance were provided and that the Statement is consistent with the information emerging from the normal audit work.
14. We note the Accountable Officer's review of effectiveness does not draw attention to any exceptions.

## Regularity Assertion

15. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires auditors to certify that, in all material respects, the expenditure and receipts shown in the accounts was incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion

through a range of procedures, including written assurances from the Agency as to their own views on adherence to enactments and guidance. No significant issues were identified for disclosure.

## Issues arising

16. In line with normal practice, issues were discussed and resolved with officers during the course of the audit. There were no significant matters arising from the audit and a few minor issues are reported in the action plan at Appendix A.
17. In previous audits we raised a number of issues on the financial statements, the most significant of which related to the timely production of the financial statements for audit. We are pleased to report that the financial statements for 2005-06 were prepared and available when we commenced our audit enabling the audit to be completed as planned by 30 June 2006.

## Corporate Governance and Systems

### Corporate Governance overview

18. The Agency has a responsibility to develop and implement systems of internal control, including systems of financial, operational and compliance control and risk management. This involves undertaking a proper assessment of the risks facing the Agency and implementing systems and procedures to address those risks.
19. As part of our audit planning we updated our overview of Agency's system of corporate governance. This took into account the work carried out by the internal audit service. Satisfactory arrangements have been in place for several years, the key elements including:
  - a *Framework Document*, including a *Financial Memorandum*, which sets out overall arrangements;
  - an Annual Corporate Plan, approved by board members, supplemented by a departmental business plan, and used as the basis to monitor progress during the year;
  - a series of standing committees, including an Audit Committee and a finance committee, which have terms of reference and meet regularly throughout the year;
  - sound arrangements for the prevention of fraud and corruption, with a fraud policy and a fraud committee; and
  - a detailed risk register across the whole organisation, along with effective mitigating action and review processes.

### Review of Internal Audit

20. The establishment and operation of an efficient and effective internal audit function forms a key element of effective governance and stewardship. The Agency's internal audit service is provided by the Scottish Executive Audit Services ("Audit Services"). During 2004-05 Audit Scotland's central

services auditors have carried out a comprehensive review of Audit Services. The review has covered:

- the extent of internal audit's compliance with Government Internal Audit Standards (GIAS) in planning and undertaking their work; and
- a detailed evaluation of specific internal audit work to determine the extent to which we can rely on this work for the purposes of our audit.

21. The overall conclusion of our central service team is that Audit Services complies with Government Internal Audit Standards in adopting a risk based audit approach in planning and undertaking their work. However they identified some areas for improvement in the management and governance arrangements for the internal audit function. As part of their 2005-06 audit our central service team assessed Audit Services' progress in implementing the agreed Action Plan from 2004-05 and the extent to which we could continue to place reliance on the work of Audit Services.
22. Their review of Audit Services' working paper files confirmed that Audit Services continue to comply with Government Internal Audit Standards in adopting a risk based audit approach in planning and undertaking their work and we are able to place reliance on the work of Audit Services for the purposes of our audit of SAAS. In particular we placed reliance on their work in respect of Corporate Governance and Risk Management, and the Statement on Internal Control.

## Central services

23. The Scottish Executive provides the Agency with financial systems services such as the general ledger, accounts payable, cash and bank, and payroll. Audit Scotland's central services auditors annually review the key controls operating within these systems. The findings in the report provided by our central services auditors have shown that with the specific exception of the payroll system, key controls appear to be in place and that the output from these systems, including SEAS, appears sound.
24. With respect to payroll system (ePayFact), our central services auditors concluded that only limited reliance could be placed on the key controls operating during the 2005-06 financial year as there were a number weaknesses in the key controls. To ensure that we obtained sufficient assurance for our audit opinion we carried out specific additional testing at SAAS.

## Performance

25. As explained in the Audit Planning Memorandum our audit approach involves aspects of performance audit. There have been no specific outputs relating to the Agency to report under this heading but we draw attention to a couple of wider public sector developments.

## **Best Value**

26. The Scottish Executive have been considering the most appropriate way to encourage and embed the principles of Best Value across the wider public sector.
27. In May 2005, Ministers decided that they would not bring forward legislation which extends Best Value in the wider public sector. However, as Ministers do wish to encourage and embed the principles of Best Value across the wider public sector, revised guidance was issued in May 2006
28. During 2005-06 Audit Scotland has carried out a baseline review to establish the arrangements in place across the central government and NHS sectors to support Best Value and continuous improvement, and to identify areas of good practice. The results from these reviews are currently being finalised.

## **Efficient Government Initiative**

29. The Efficient Government initiative is a 5 year programme with the aim of reducing waste, bureaucracy and duplication in Scotland's public sector. The primary objective is to deliver the same services with less money or to enable frontline services to deliver more or better services with the same money. The Efficient Government Plan sets targets to achieve of £745 million (rising to £900 million) of cash-releasing savings and £300 million (rising to £600 million) of time-releasing savings, by 2007-08.
30. During 2005-06 Audit Scotland completed a management arrangements diagnostic on Efficient Government activities across a number of Central Government. It aimed at providing baseline information on arrangements across a range of Efficient Government related topics.
31. The results from this review are currently being finalised.

## **National Studies**

32. The Central Government team within the Performance Audit division of Audit Scotland have carried out a number of studies during the year. Details of relevant studies published recently are included at Appendix B.

# Appendix A: Action Plan

No	Issue and Risk	Responsible Officer	Management Response	Action Date
1	<p>The majority of contracts are maintained centrally by the Scottish Executive. This poses a problem when the budget holders sign off invoices as they cannot check the invoice rates.</p> <p>The risk is that the Agency could unknowingly be over charged.</p>	S. Blyth	<p>We have written to the Scottish Executive requesting agreed contract prices for all centrally held contracts that effect SAAS. We are currently waiting for a response.</p>	N/A
2	<p>There is requirement in FReM that the Agency provide an analysis of financial assets and financial liabilities comparing book value to fair value and disclosing the basis on which fair value was determined.</p> <p>There is no significant risk but the Agency should ensure compliance with FReM as fully as possible</p>	S. Blyth	<p>This will be included at within the next set of published accounts.</p>	31 May 2007

# Appendix B: Auditor General for Scotland published reports

Accounts Commission and Auditor General for Scotland

*Public Sector Pension Schemes in Scotland (published 20/06/2006)*

The report provides a snapshot of the six main public pension schemes in Scotland, the level of unfunded liabilities and the issues affecting future liabilities and contribution rates.

Accounts Commission and Auditor General for Scotland

*No hiding place: the National Fraud Initiative in Scotland (published 17/05/2006)*

Scotland's councils have worked with other public bodies to identify £15m worth of fraud and errors in a national detection exercise.

Auditor General for Scotland

*Relocation of Scottish Executive Departments, executive agencies and NDPBs (published 21/09/2006)*

Audit Scotland found that most of the reviews arose from the creation or restructuring of organisations, or from breaks in property leases. Only two of 38 reviews were the result of potential efficiency improvements identified by the organisations in their business plans. In most cases, it was not clear whether relocation would deliver wider policy objectives

Auditor General for Scotland

*Leadership development: How Government Works (published 17/11/2005)*

Scotland's public sector has good examples of investment in leadership but many individual organisations do not have clear policies and most are unable to link the spending to improvements in their performance. Public bodies need to do more to track the £5m they invest each year in leadership development and make sure it results in better managed organisations and better public services, says Audit Scotland.

Auditor General for Scotland

*Scottish Executive: supporting new initiatives. How Government Works (published 10/11/2005)*

Last year the Scottish Executive launched new initiatives amounting to £1.4 billion. The management of these projects is generally sound, but making changes could help to improve control of the funding and allow better assessment of whether the money is helping to achieve policy aims