

Scottish Further and Higher Education Funding Council

Report on the 2009/10 Audit to the Scottish Further and Higher
Education Funding Council and the Auditor General for Scotland

23 June 2010

The logo for Audit Scotland, featuring a stylized blue checkmark inside a circle, followed by the text "AUDIT SCOTLAND" in a blue, sans-serif font.

AUDIT SCOTLAND

Scottish Further and Higher Education Funding Council

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Key messages

In 2009/10 we looked at the key strategic and financial risks being faced by the Scottish Further and Higher Education Funding Council. We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

Financial statements

We have given an unqualified opinion on the financial statements of the Scottish Further and Higher Education Funding Council for 2009/10. We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers.

Financial position and use of resources

Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight. It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known. Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available. In the current economic climate difficult decisions will have to be made across the public sector about priority spending programmes

The Scottish Further and Higher Education Funding Council had a surplus of £2.1m in 2009/10 which was transferred to reserves. This is the difference between the expenditure for the year of £1,919.1 million and the government funding received of £1,921.2 million. The Scottish Further and Higher Education Funding Council operated within the budget limits set by the Scottish Government for capital expenditure and operating expenditure.

Scottish Ministers have agreed a budget of £1,744.9 million for 2010/11. The budget for 2010/11 represents a 1% decrease on the 2009/10 grant-in-aid.

Scottish further education colleges' and higher education institutions' target under the Efficient Government Plan for the three years to 2010/11 is £96 million of cash-releasing and time-releasing efficiencies. The actual efficiency savings achieved to 31 July 2009 were £38.7 million of cash-releasing and £5.4 million of time-releasing efficiencies, giving a total of £44.1 million. A further £32 million of cash-releasing savings are anticipated in the year to 31 July 2010. The savings delivered in 2009/10 included procurement (£12.8 million), asset management (£2.8 million) and shared services (£0.1 million). The delivery of future efficiency savings by the bodies that it funds, together with other budget pressures in the medium term, are a significant challenge for the Scottish Further and Higher Education Funding Council.



Governance and accountability

Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. Overall the corporate governance and control arrangements for the Scottish Further and Higher Education Funding Council operated satisfactorily during the year, as reflected in the Statement on Internal Control.

We examined the key financial systems which underpin the organisation's control environment. We concluded that financial systems and procedures operated sufficiently well to enable us to place reliance on them.

Performance

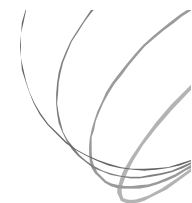
The corporate plan for 2009-2012 was published in June 2009. The plan focuses on seven key outcomes in the wider context of the Government's National Performance Framework. The Scottish Further and Higher Education Funding Council will use the Framework as a means of measuring its performance and its contribution to the National Outcomes in that Framework. The Scottish Further and Higher Education Funding Council continues to make progress in implementing the actions arising out of the Internal Audit report on Best Value.

Looking forward

The final part of our report notes some key risk areas and issues for the Scottish Further and Higher Education Funding Council going forward. We have highlighted a number of national issues which affect all public sector bodies including the Scottish Further and Higher Education Funding Council, including the need to create efficiencies and the likely reduction in funding, the impact of the recession on fundable bodies, the implementation of New Horizons, developments in future capital project funding and aspects of the role of the Council in relation to New Campus Glasgow. These all continue to represent significant challenges to the Scottish Further and Higher Education Funding Council.

The assistance and co-operation given to us by Council members and staff during our audit is gratefully acknowledged.

Audit Scotland
23 June 2010



Introduction

1. This report summarises the findings from our 2009/10 audit of the Scottish Further and Higher Education Funding Council. The scope of the audit was set out in our Audit Plan in accordance with the Code of Audit Practice, which was presented to the Audit and Compliance Committee on 3 November 2009. This plan set out our views on the key business risks facing the organisation and described the work we planned to carry out on financial statements, performance and governance. Appendix B details our findings from the review of the main risks.
2. We have issued a range of reports this year, and we briefly touch on the key issues we raised in this report. Each report set out our detailed findings and recommendations and the Council's agreed response. Appendix A of this report sets out the key risks highlighted in this report and the action planned by management to address them.
3. Best value duties apply across the public sector and are a formal duty on all accountable officers. Audit Scotland has adopted a generic framework for the audit of best value across the public sector and this has been further developed during 2009/10 with the completion of its bank of best value Toolkits which, although primarily designed for audit use, are available to all public bodies for reference.

Exhibit 1: Framework for a best value audit of a public body





4. A linked development here has been the Scottish Government's work to refresh its 2006 best value Guidance for Public Bodies. This latter initiative, due for issue later in 2010, will result in clearer guidance to public bodies, and particularly those in the Central Government and Health sectors, on securing continuous improvement in performance, with due regard to the balance between cost and quality.
5. Throughout this report we comment on aspects of the Scottish Further and Higher Education Funding Council arrangements in this area. Our comments are made on the basis of information made available in the course of the annual audit. We do not make an overall best value judgement because we do not yet have enough evidence to conclude on all relevant areas. Our intention is to build up the corporate assessment over time. This report represents a further step towards that goal.
6. Another building block for our assessment of best value is the national study programme carried out by Audit Scotland on behalf of both the Auditor General for Scotland and the Accounts Commission. Where these have a bearing on the activities, risks or performance of the Scottish Further and Higher Education Funding Council, we make reference to these reports in this document. Full copies of the study reports can be obtained from Audit Scotland's website, www.audit-scotland.gov.uk.
7. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by management and Council members of the Scottish Further and Higher Education Funding Council during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website.



Financial Statements

8. In this section we summarise key outcomes from our audit of the Scottish Further and Higher Education Funding Council's financial statements for 2009/10 and the accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available to it and its financial performance in the use of those resources.

Our responsibilities

9. We audit the financial statements and give an opinion on:
- whether they give a true and fair view of the financial position of the Scottish Further and Higher Education Funding Council and its expenditure and income for the period in question;
 - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
 - the consistency of the information which comprises the Management Commentary and the unaudited part of the Remuneration Report included in the Annual Report with the financial statements; and
 - the regularity of the expenditure and receipts.
10. We also review the statement on internal control by:
- considering the adequacy of the process put in place by the Chief Executive as Accountable Officer to obtain assurances on systems of internal control; and
 - assessing whether disclosures in the statement are consistent with our knowledge of the Scottish Further and Higher Education Funding Council.

Overall conclusion

11. We have given an unqualified opinion on the financial statements of the Scottish Further and Higher Education Funding Council for 2009/10.
12. As agreed the unaudited accounts were provided to us on 4 May 2010, supported by a comprehensive working paper package. This was the first full implementation of IFRS for the accounts and a number of numeric and disclosure changes were made between drafts. Although several schedules were received later than planned, we concluded our audit within the agreed timetable and provided our opinion to the Audit and Compliance Committee on 23 June 2010 as timetabled.



Issues arising from the audit

13. As required by auditing standards we report to the Audit and Compliance Committee that the main issues arising from our audit of the financial statements. The key issues were as follows:

Non Current Assets

14. Our audit work found software was wrongly categorised as tangible rather than intangible assets under IAS38. Software assets with a net book value of £55k were found to be intangibles requiring separate classification and disclosure.
15. Several items, with a total value of less than £10k which should have been capitalised under the Scottish Further and Higher Education Funding Council's current accounting policy for non-current assets, were found to have been expensed.

Action Point 1

Stow College

16. The 2008/09 annual report and accounts the Scottish Further and Higher Education Funding Council reported a contingent asset in relation to potential clawback of funding from Stow College. The clawback arose from courses which were found to have been ineligible for funding in prior years. The Scottish Further and Higher Education Funding Council has now agreed the amount of clawback and this has been accounted for as a recoverable grant in the 2009/10 financial statements. The Scottish Further and Higher Education Funding Council has also provided a strategic change grant to the college to aid its recovery plan.

Clawback and funding commitments

17. There were delays in providing information relating to funding clawback and future funding commitments with the result that audit scrutiny only took place at the end of the audit.

Action Point 2

Management Letter

18. A management letter with two minor items arising out of the final audit process will be produced in due course together with an action plan. The items have been discussed and agreed with management at our wash-up meeting on 8 June. The major points raised include the items discussed at paragraphs 14 to 17. These will be followed up in 2010/11 to confirm that improvements have been made.



Regularity

19. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were 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 Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.

International financial reporting standards (IFRS)

20. UK Government departments and other public sector bodies prepared their accounts in accordance with International Financial Reporting Standards (IFRS) for the first time in financial year 2009/10. The transition arrangements to IFRS required bodies to prepare IFRS shadow accounts for 2008/09, including revised opening balances as at 1 April 2008.
21. During 2009/10 we were required to review the shadow accounts and report on them to the Scottish Government by 28 February 2010. The purpose of this exercise was to consider whether the shadow accounts had been properly prepared and report any matters that might prevent them forming a reliable basis for the first set of IFRS based accounts in 2009/10.
22. The shadow accounts and supporting documentation for the 2008/09 financial year were submitted by the Scottish Further and Higher Education Funding Council for review by the deadline date of 28 February 2010.
23. We made some recommendations for the production of the 2009/10 accounts, and considered progress on these when we audited the 2009/10 accounts.
 - Non-current assets have been valued at depreciated historical cost as a proxy for fair value and a review of fixed asset useful economic lives and residual values has taken place. However this review should be an annual event and include consideration of impairment;
 - The financial guarantee contract referred to in note 18 and disclosed as a contingent liability should be accounted for in compliance with IAS 39 *Financial Instruments: Recognition and Measurement* and disclosure made in accordance with IFRS 7 *Disclosure of Financial Instruments*.
24. We found that a review had been carried out of non current assets and that the financial guarantee contract had been accounted for correctly. The issue of non current intangible asset categorisation was described in paragraph 14.



Use of Resources

25. Sound management and use of resources (people, money and assets) to deliver strategic objectives is a key feature of best value. This section sets out our main findings from a review of the Scottish Further and Higher Education Funding Council:
- financial position;
 - financial management; and
 - management and use of information and communications technology (ICT).
26. We also refer to National Studies carried out by Audit Scotland that are relevant to the operations of the Scottish Further and Higher Education Funding Council.

Financial Position

Outturn 2009/10

27. The Scottish Further and Higher Education Funding Council is funded on a financial year basis but distributes funds to institutions on an academic year basis (i.e. from August to July each year). The level of funds distributed in any financial year therefore depends on the expenditure profiles of the relevant two overlapping academic years. Expenditure in any financial year can be higher or lower than the level of funding provided for that year.
28. **Income Statement** - For 2009/10 the Scottish Further and Higher Education Funding Council had a surplus of £2.1 million. This is the difference between the total expenditure for the year of £1,919.1 million and the funding received from the Scottish Government of £1,921.2 million. Where funds provided exceed the expenditure, the surplus is taken to the reserves held for distribution.
29. The total grant-in-aid received in 2009/10 comprised £1,878 million for distribution to Higher Education Institutions and Colleges (2008/09: £1,726 million) and £8.9 million for the Scottish Further and Higher Education Funding Council's running costs (2008/09: £9.2 million). The Scottish Further and Higher Education Funding Council's net expenditure on running costs was £8.6 million, resulting in a £0.3 million increase to the running cost reserve.
30. **Balance Sheet** - The Scottish Further and Higher Education Funding Council's balance sheet at 31 March 2010 shows net assets of £27.8 million (31 March 2009 net assets of £25.7 million). The movement is caused by the surplus described above. The FReM requirement to account for grant-in-aid as a credit to reserves has resulted in expenditure less other operating income for the year of



£1,919 million (2008/09: £1,765 million). The grant-in-aid and other grants credited to reserves for the year was £1,921 million (2008/09: £1,762 million). There has been an increase in total reserves of £2.1 million.

31. The Scottish Further and Higher Education Funding Council operated within the cash limited allocations of funds for distribution and running costs provided by the Scottish Government. The excess of income over expenditure of £2.1 million was taken to reserves – see exhibit 1 below:

Exhibit 2 – Performance against funding allocation 2009/10 (£ million)

Limits	Allocation	Actual Outturn	Difference
Funding for institutions	1,912.3	1,910.4	(1.9)
Running costs	8.9	8.7	(0.2)
Total	1,921.2	1,919.1	(2.1)



Scotland's public finances

32. The Auditor General's report on *Scotland's public finances, published in November 2009*, contained an overview of the financial environment in Scotland and the pressures and challenges facing the public sector. The aim of this report was to help to inform the debate on the future of public finances in Scotland. The key messages from this report were:

Extract from Auditor General's report *Scotland's public finances*

The public sector is coming under the greatest financial pressure since devolution.

- Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight.
- The Scottish Government and the wider public sector need to work together to develop better activity, cost and performance information. This information is needed to enable informed choices to be made between competing priorities, and to encourage greater efficiency and productivity.

The Scottish Government faces significant challenges in balancing the budget while also delivering on its commitments and meeting increasing demands for public services.

- It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known.
- In many cases, the public sector uses income from various sources to pay for services. Income levels anticipated before the recession are unlikely to be realised, reducing the amount available to spend.
- The Scottish public sector faces significant challenges in balancing its budget while also delivering on its commitments. Changes in Scotland's population and rising unemployment rates will increase demand for public services.
- Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available.

In the current economic climate difficult decisions will have to be made about priority spending programmes.

- The Scottish Government's annual budget is largely developed on an incremental basis which involves making adjustments at the margin to existing budgets. This approach is not suitable for budgeting in a financial downturn because it does not easily allow informed choices to be made about priorities, based on robust information about activity, costs and performance.
- The Scottish Parliament has an important role in scrutinising the government's spending plans. Better information linking spending to costs, activities and service performance, and a rolling programme of performance reviews, would support the Scottish Parliament in fulfilling this role.

33. The Scottish Further and Higher Education Funding Council has instituted a significant reorganisation involving both restructuring and a forthcoming office consolidation in order to improve its efficiency.



Financial sustainability and the 2010/11 budget

34. Scottish Ministers have agreed a grant-in-aid budget for the Scottish Further and Higher Education Funding Council of £1,744.9 million for 2010/11. This comprises:

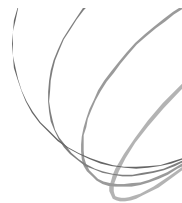
Exhibit 2 – 2010/11 Resource Plan (£ million)

Limits	Budget
Current funding for Further Education Colleges	573.5
Capital Grants for Further Education Colleges	114.0
Current funding for Higher Education Institutions	971.1
Capital Grants for Higher Education Institutions	77.2
SFC Running Costs	9.1
Total	1,744.9

35. The Scottish Further and Higher Education Funding Council is expected to achieve 2% of efficiency savings per year from 2009/10 to 2011/12. Delivering efficiencies year on year while absorbing pay inflation and other cost pressures represents a significant challenge for the organisation.

Management and use of ICT

36. As part of the 2009/10 audit we have carried out a 'Your Business @ Risk' survey of knowledge and attitudes to data security amongst Scottish Further and Higher Education Funding Council staff. The response rate in May 2010 was identical to that achieved during July 2009, and provided a good basis for comparing the results of this year's survey with those reported last year.
37. The survey identified a number of areas where staff continued to demonstrate a high level of awareness and good practice. These areas included awareness of IT policies and the procedures to adopt in relation to memory sticks, security incidents and subsequent password changes, and reflected an increased confidence in being able to locate and understand appropriate policies. There has, however, been an increase in the number of staff who write down their passwords, which perhaps indicates that they have too many to remember.
38. Reviewing some of the areas identified as development opportunities during the 2009 survey, we are pleased to report that the 2010 survey results demonstrate an increased level of information security awareness amongst staff. The results from the survey were also compared with a Scottish database of public sector clients who have taken part in the same survey to date. The comparison indicates that the Scottish Further and Higher Education Funding Council compares favourably with the benchmark data, with awareness around information governance being in line with or better for the majority of the



questions. We do note, however, that in some areas there remain opportunities for further development and reinforcement. Key actions going forward will include:

- Providing a programme of Information Security awareness sessions to all staff. Due to commence in June 2010, these sessions will have a strong emphasis on secure data handling.
- Implementing a solution that will allow staff to send encrypted, password-protected data by email. A technical solution has been identified, work is now proceeding to finalise a procedure covering its use, before it is made available to all staff for general use.
- Strengthening the password protection policy to ensure that all passwords have a minimum length of 8 characters and include both digits and special characters as well as lower- and upper-case letters.

39. It has been agreed that the Senior Information Risk Owner, Martin Fairbairn, will communicate the outcomes from this survey to all staff and that risk areas identified will be addressed clearly through the Knowledge Management and Information Technology (KMIT) Steering Group.

National Studies

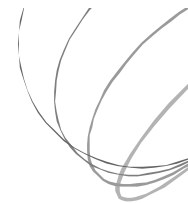
40. Audit Scotland is currently developing a more flexible approach to our national performance audit programme. Our focus continues to be on value for money, economy, efficiency, effectiveness and on governance and accountability. We have developed the following five key themes to help underpin our programme:

- **Managing reductions in public sector budgets:** in recognition of the cost pressures facing public services, and building on and developing issues arising from our reports on Scotland's public finances and Improving public sector efficiency.
- **Investment:** looking at accountability for the use of public funds; examining the scope for reducing cost overruns and improving project management; and assessing whether investing in services with early intervention leads to better outcomes and savings in the longer term.
- **Partnership working:** examining the value for money of partnership working and whether this way of planning and delivering services is making a real difference.
- **User focus and personalisation:** looking across organisational boundaries and identifying cost-effective ways of delivering services which better suit people's needs at the same time as delivering savings.
- **Environmental auditing:** reviewing how Scotland is responding to the challenges of reducing carbon emissions and adapting to climate change.



Future studies

41. Audit Scotland is about to start fieldwork for the performance audit *'Management of the Scottish Government's capital investment programme'*. As part of this work we will be speaking to the Scottish Further and Higher Education Funding Council and discussing various aspects of the investment programme.
42. Overall, the project aims to provide independent assurance about how well the Scottish Government is managing its capital investment programme and associated risks. It will also assess and report on the outlook for investment spending and what improvements have been made in major project management since our previous report *Review of major capital projects in Scotland (June 2008)*. It is due to be published in Autumn 2010.
43. *Improving energy efficiency: a follow-up report* will re-evaluate the performance of the public sector in improving its energy efficiency. It will assess progress made against the recommendations in the *Improving energy efficiency report 2008*, and look at changes in public bodies' energy consumption and spending on energy since 2004/05. It will also look at how prepared participating public bodies are for the CRC Energy Efficiency Scheme. It is due to be published in December 2010.



Governance and Accountability

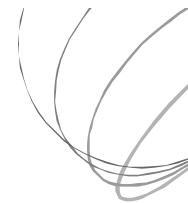
44. High standards of governance and accountability, with effective structures and processes to govern decision-making and balanced reporting of performance to the public, are fundamental features of best value. This section sets out our findings arising from a review of the Scottish Further and Higher Education Funding Council arrangements.
45. Increasingly services are being delivered across the public sector through partnership working, sometimes involving complex governance and accountability arrangements. Best value characteristics also include effective partnership working to deliver sustained improvements in outcomes.

Overview of arrangements

46. This year we reviewed:
 - key systems of internal control;
 - internal audit; and
 - arrangements for the prevention and detection of fraud and irregularity, including standards of conduct.
47. We also refer to a National Study being carried out by Audit Scotland that is relevant to the operations of the Scottish Further and Higher Education Funding Council.
48. Our overall conclusion is that arrangements within the Scottish Further and Higher Education Funding Council are sound and have operated through 2009/10. We report that key controls were operating effectively, and that the Scottish Further and Higher Education Funding Council has adequate systems of internal control in place.

Systems of internal control

49. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In their annual report for 2009/10 KPMG, the internal auditors, provided their opinion based on the internal audit work undertaken during the year. We reviewed their findings and took them into account in formulating our audit opinion.
50. As part of our audit we reviewed the high level controls in a number of the Scottish Further and Higher Education Funding Council's systems that impact on the financial statements. This audit work



covered a number of areas including five main systems: main accounting, grants payable, staff costs, non-payroll expenditure, and cash and bank. This assessment involved confirmation of management arrangements in each particular system followed by a walk through of sample data to ensure that the controls identified are in place and operating effectively. A letter confirming the effective operation of these systems has been sent to the Scottish Further and Higher Education Funding Council. We had no significant items to report in our Internal Controls Letter.

Statement on Internal Control

51. The Statement on Internal Control provided by the Scottish Further and Higher Education Funding Council Accountable Officer reflected the main findings from both external and internal audit work. This recorded management's responsibility for maintaining a sound system of internal control and set out the Scottish Further and Higher Education Funding Council approach to this.

Internal Audit

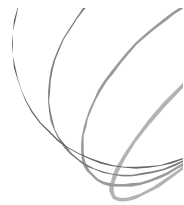
52. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2009/10 audit we assessed whether we could place reliance on the Scottish Further and Higher Education Funding Council internal audit function. We concluded that KPMG operates in accordance with the Government Internal Audit Standards and therefore placed reliance on their work in number of areas during 2009/10, as we anticipated in our annual audit plan. This included reliance on aspects of internal audit's systems work to avoid duplication of effort.

Prevention and detection of fraud and irregularities

53. The Scottish Further and Higher Education Funding Council has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption, including policies and codes of conduct for staff and Council members. During the audit we examined client procedures for recording staff expenditure (e.g. travel), gifts and hospitality and performed testing to ensure procedures had been complied with. We found items had been appropriately recorded and authorised.

National Studies

54. In August 2010, Audit Scotland will be publishing a national study on *The Role of Boards* which will be relevant to the governance of the Scottish Further and Higher Education Funding Council. Boards play a crucial role in ensuring that governance standards are maintained in public sector organisations. There are recent examples of the failure of public sector organisations to establish an adequate Board. We will assess how Board members are selected and whether the membership of



Boards is appropriate. In this study we will also review how the performance of Boards is measured and the arrangements for induction and training for non-executive members. Feedback relating to the Scottish Further and Higher Education Funding Council will be provided in due course where appropriate.



Performance

55. Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. Key features of best value include:
- setting a clear vision of what the organisation wants to achieve, backed up by plans and strategies to secure improvement, with resources aligned to support their delivery; and
 - a performance management culture which is embedded throughout the organisation and a performance management framework which is comprehensive and supports the delivery of improved outcomes.
56. In this section we comment on:
- the Scottish Further and Higher Education Funding Council corporate plan;
 - performance against targets;
 - performance management arrangements;
 - risk management; and
 - the Scottish Further and Higher Education Funding Council efficiency programme.

Vision and strategic direction

57. The Scottish Further and Higher Education Funding Council published its corporate plan for 2009-2012 in June 2009. The plan focused on five strategic themes of governance and leadership, quality and enhancement, global engagement, sustainable development, and equalities. It identified seven outcomes to be delivered by the Scottish Further and Higher Education Funding Council and its partners; these outcomes map to the Government's National Performance Framework. By the end of the planning period the Scottish Further and Higher Education Funding Council has a vision for:
- an enhanced level of confidence, self-reliance, motivation, knowledge, skills and capacities of all those who study at college or university – including an improved capacity for those skills to be utilised effectively;
 - colleges and universities that are part of a coherent system of lifelong learning in Scotland with improved access for students to, and progression through, further and higher education – based upon ability to learn;
 - improved knowledge exchange between universities and colleges on the one hand, and business and the public and third sectors on the other;



- enhanced and more effective relationships between colleges and universities and Scotland's priority industries;
- recognised specialism and diversity of mission among colleges and universities which provides greater choice and opportunity for students and other stakeholders;
- greater collaboration between colleges and universities which improves provision for students, delivers internationally competitive research, and drives efficiency and eliminates unnecessary duplication;
- a broad base of sustainable world-class research with high quality research taking place in all higher education institutions; and
- universities and colleges that are recognised as exemplars in the sustainable use of their resources and their commitment to sustainable development.

Performance overview

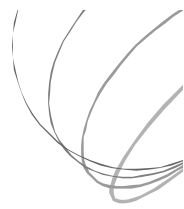
58. The Scottish Further and Higher Education Funding Council's 2009/10 Annual Report highlights some activities linked to the above Corporate Plan aims that have been undertaken during the year but does not specifically report the performance of the Scottish Further and Higher Education Funding Council against its Corporate Plan aims.
59. Although the management commentary describes the levels of activity it does not report the performance against the performance measures agreed in the 2009-12 corporate plan.
60. The Scottish Further and Higher Education Funding Council established a performance measurement framework to measure performance against the Corporate Plan's aims. The management commentary gives details of the financial performance of the Scottish Further and Higher Education Funding Council.

Performance management

61. The Scottish Further and Higher Education Funding Council's Board meets six times each year and considers the organisation's performance with feedback provided by its seven specialised committees (ten were extant during 2009/10). Quarterly monitoring information is submitted to the Scottish Government.

Risk management

62. There are number of key challenges and risks for the Scottish Further and Higher Education Funding Council in delivering its plan. The Council has put in place robust systems for the identification and management of risk with the adoption of a single corporate risk register which identifies the high-level



business risks to the Council and the controls or actions in place to manage each risk. The Audit and Compliance Committee manages the risk register on behalf of Council. The challenge for the Council will be to continue to ensure that the risk aware culture is maintained within the organisation for the future management of existing and emerging risks in the medium to long term.

63. The main risk areas are:

- **Efficiencies and Future Funding** – there are considerable uncertainties surrounding future grant-in-aid funding following the budget cuts announced by the new UK government. The impact on colleges and universities is not yet known. In addition, the college and university sectors face the challenge of making 2% annual cash-releasing efficiencies between 2008/09 and 2010/11 under the Efficient Government Programme.
- **The impact of the recession on the sector** – With unemployment rising, demand for college and university places and hardship support has seen a sharp increase. The financial health of colleges and universities is coming under increased pressure as budgets are tightened and estate development projects are impacted by the downturn in the property market.
- **Implementation of New Horizons proposals** – The Scottish Further and Higher Education Funding Council has embarked on a 3 year implementation plan which has seen a new university funding mechanism in place. There are a range of risks associated with this process in terms of the formulation, development and implementation of funding policy and the risk that the New Horizons proposals fail to deliver against the outcomes identified in the new Corporate Plan.
- **Loan Support Schemes and future Capital Funding** – the level of future capital funding needs in the college and university sectors has raised concerns over the sustainability of future funding flows. As a means of managing the potential shortfall in funding, the Scottish Further and Higher Education Funding Council has been exploring a loan support scheme which would source funding from commercial banks for estate projects, supported by a guarantee provided by the Scottish Further and Higher Education Funding Council. An in-depth risk appraisal has been carried out by the Council.
- **New Campus Glasgow** – the planned merger of three Glasgow city centre colleges is entering a critical phase as the merger details are finalised and development plans move forward. The role of the Scottish Further and Higher Education Funding Council in managing the diverse risks and competing pressures in this major project are challenging.

64. These risk areas are complex and comprise multiple issues which will require careful management to resolve. We have continued to monitor the Council's progress in each of these areas over the course of the year.



Improving public sector efficiency

65. The Audit Scotland report *Improving public sector efficiency* was published on 25 February 2010. It provided a position statement on the first year (2008/09) of the Efficient Government Programme (the Programme), which aims to deliver £1.6 billion efficiency savings over the three years to 2010/11. It also gave an update on how the Scottish Government and public bodies have addressed the recommendations made in the 2006 report about the previous efficiency programme.
66. The report found that Scottish public bodies reported more efficiency savings than the Government's two per cent target. But there are serious financial challenges ahead – the biggest since devolution – and making the required savings through efficiency will become increasingly difficult.
67. The report recommended that to deal with reduced future funding and increase savings public bodies need to consider fresh approaches to improving efficiency and productivity. They must take a more fundamental approach to identifying priorities, improving the productivity of public services, and improving collaboration and joint working.
68. The drive to improve efficiency and productivity is not just an exercise for managers and service providers. It requires strong leadership and engagement from the very top of public bodies. Leaders and senior decision-makers within an organisation have a responsibility to check, challenge, monitor and support their organisations in delivering efficiency and productivity improvements. The report's recommendations highlighted areas that public bodies' key decision makers should look at to assess their organisation's development and to challenge existing arrangements (see below).

Extract from Audit Scotland report *Improving public sector efficiency*

In order to improve the delivery of efficiency savings public bodies should:

- ensure they have a priority-based approach to budgeting and spending
- continue to improve collaboration and joint working, overcoming traditional service boundaries
- consider using alternative providers of services, if these providers can improve the efficiency, productivity or quality of services
- improve information on costs, activity, productivity and outcomes, including setting baselines to measure performance against
- give greater urgency to developing benchmarking programmes
- maintain the momentum of activities and initiatives to improve purchasing and asset management and extend shared services
- ensure there is a joined-up approach to efficiency savings across the public sector, avoiding duplication
- ensure that plans are in place to deliver savings, clearly setting out what action will be taken, the level of savings to be delivered and how these will be measured
- strengthen the involvement of front-line staff, service providers and users in redesigning public services
- reduce reliance on non-recurring savings to meet financial targets and generally use these as part of a wider and longer term strategy
- report efficiency savings consistently.

69. To support these high-level recommendations, Audit Scotland, the Northern Ireland Audit Office and the Wales Audit Office have drawn on their combined experience to develop a detailed good practice



checklist. The checklist is intended to promote detailed review and reflection and, if necessary, a basis for improvement. We recommend that those responsible for leading efficiency and improvement work should consider assessing themselves against each question, and recording the results.

70. The Scottish Further and Higher Education Funding Council has undertaken an internal restructuring programme in order to align its organisational structure more closely to its new corporate plan. Two senior directors now head up nine operating groups which are organised under two areas, Skills, Research and Knowledge Exchange, and Institutions and Corporate Services. The committee structure has similarly been streamlined to create seven committees providing advice to Council.
71. Further education colleges' and higher education institutions' target for the Efficient Government Plan for the three years to 2010/11 is £96 million of cash-releasing savings and time-releasing efficiencies. The actual savings achieved to 31 July 2009 were £38.7 million of cash releasing and £5.4 million of time releasing efficiencies. The target for cash releasing efficiencies was £32 million for 2008/09, so this has been exceeded by £6.7 million. The achievement of further savings targets over the next two years will prove challenging for the Scottish Further and Higher Education Funding Council's fundable bodies.
72. We will continue to monitor the financial position and the actions taken by Scottish Further and Higher Education Funding Council to manage these risks.

National Studies

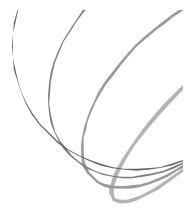
73. A follow-up report is being undertaken to the 2006 report, *Public sector pension schemes in Scotland*. It will provide an update position on the six main public sector pension schemes and the implications for the Scottish Government spending going forward. It is due to be published in November 2010. Feedback relating to the Scottish Further and Higher Education Funding Council will be provided in due course where appropriate.



Looking Forward

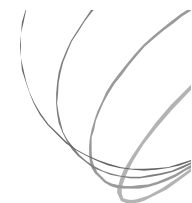
74. The Scottish Further and Higher Education Funding Council faces a number of challenges in 2010/11, which include:

- **Efficiencies and future funding** – The announcement of future budget cuts by the new UK government indicates that there will be serious financial challenges ahead. The impact of cuts on the further and higher education sector is not yet clear, but potential reductions in future funding at a time when demand for college and university places is increasing will necessitate clear identification of priorities and improvements in operations. In addition, the further and higher education sectors need to find £96 million of savings over the three years to 2010/11 under the Efficient Government Programme. Achieving the required savings through efficiency will become increasingly difficult. The challenge for the Scottish Further and Higher Education Funding Council is to support and monitor colleges and universities through this difficult period to ensure delivery of key targets and objectives.
- **Impact of the Recession** - Although both FE and HE institutions will be affected by increasing pressures on budgetary and financial control, colleges will be affected most as they are more dependent on public funding. In addition, all institutions are experiencing increased demand for student places and difficulties in estate development resulting from the decline in property values. The challenge for the Scottish Further and Higher Education Funding Council is to find effective means of supporting the bodies that it funds and targeting funding to priority areas over the longer term.
- **Best Value** - The concept of best value is seen as a key driver of modernisation and improvement in public services. Audit Scotland has continued its commitment to extending the best value audit regime across the whole public sector and significant development work has taken place over the last year including the finalisation of its best value toolkits. This has been matched by the Scottish Government's commitment to refreshing its Best Value Guidance for Public Bodies. The Scottish Further and Higher Education Funding Council should continue to respond to this important initiative as it develops.
- **New Horizons** - the 3 year implementation of the New Horizons proposals is underway. The Scottish Further and Higher Education Funding Council is still working to develop a more strategic role in relation to Higher Education Institutions, balanced by a 'lighter touch' approach to monitoring. The challenge for the Scottish Further and Higher Education Funding Council is to maintain close collaboration with its various stakeholder groups and obtain support for any changes to funding allocations.
- **Loan Support and Sustainable Capital Expenditure plans** – the level of capital funding required in the college and university sector for sustainability purposes is likely to exceed future



funding availability. The Scottish Further and Higher Education Funding Council has investigated the use of a loan support scheme in order to meet the shortfall. The operation of the scheme is dependent on the outcome of a pilot project and government approval.

- **New Campus Glasgow** - this major Glasgow city centre project is approaching a key stage with merger arrangements between the three colleges involved nearing completion. The role of the Scottish Further and Higher Education Funding Council in handling this high-profile project and ensuring its success in the longer term, poses a significant challenge.



Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
1.	<p>Non Current Assets</p> <p>(a) Software with a net book value of £55k was found to have been wrongly categorised as tangible rather than intangible assets under IAS 38.</p> <p>There is a risk that software items in the fixed asset register are not being properly identified and separately disclosed as intangible assets.</p> <p><i>We recommend that finance staff scrutinise invoices for items of software in order to identify those which should be classified as intangible under IAS 38.</i></p> <p>(b) A review of the ledger found several items of expenditure which should have been capitalised under the Scottish Further and Higher Education Funding Council's current accounting policy on capitalisation.</p> <p>There is a risk that the accounting policy on non-current assets is being applied inconsistently and assets are being wrongly expensed.</p> <p><i>We recommend that the Scottish Further and Higher Education Funding Council reviews its current accounting policy for non-current assets and considers the implementation of a capitalisation threshold which would see minor capital items expensed. We further recommend that efforts are made to ensure the consistent application of the accounting policy for non-current assets.</i></p>	<p>Agreed</p> <p>The audit found four items with a total value less than £10,000 which had not been capitalised.</p> <p>We are planning to review our accounting policies in Autumn 2010 and introduce an appropriate threshold for capitalising assets.</p>	<p>F. O'Neill Head of Finance and Facilities</p> <p>R. Bell Director of Finance and Corporate Resources</p>	<p>31 March 2011</p> <p>30 September 2010</p>

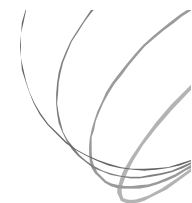


Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
2.	<p>Clawback and funding commitments</p> <p>There were delays in providing information relating to funding clawback and future funding commitments with the result that audit scrutiny only took place at the end of the audit.</p> <p>There is a risk that the tighter deadline for the preparation of the annual report and accounts may not be met if information is not provided in a timely manner.</p> <p><i>We recommend that funding and finance staff work more closely at the financial year-end to ensure that information required for the annual report and accounts is provided and agreed on a more timely basis.</i></p>	<p>The earlier closure timetable did present problems for dealing with clawback. We will timetable the completion of this item better next financial year.</p>	<p>F. O'Neill Head of Finance and Facilities</p>	<p>20 April 2011</p>

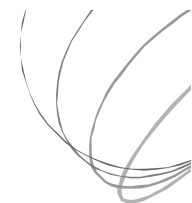


Appendix B: Review of Risks Identified in the Audit Risk Analysis and Plan

Risk	Source of assurance	Planned audit action	Outcome
Financial Performance			
<p>1. Delivery of priorities</p> <p>The risk register identifies that the running cost budget allocated to SFC by the Scottish Government could be insufficient to deliver Ministerial priorities and expectations.</p>	<ul style="list-style-type: none"> ▪ Prioritisation of use of available resources to support the delivery of the corporate plan by the development of a performance measurement framework. ▪ Efficient and effective use of resources in line with required efficiency savings. ▪ Framework for reporting against Ministerial priorities based on the Management Statement with the Scottish Government, including annual reports and quarterly monitoring meetings. 	<ul style="list-style-type: none"> ▪ Review outputs from the performance monitoring relating to delivery of SFC's corporate plan. ▪ Monitor performance against savings targets. ▪ Review of annual report and quarterly monitoring information submitted to the Scottish Government. 	<ul style="list-style-type: none"> ▪ SFC's performance is reported in the Management Commentary. ▪ Performance against savings were reviewed as part of the audit. ▪ The quarterly reports submitted through the Chair's Committee were reviewed ▪ No issues identified
<p>2. Failure to reflect Scottish Government priorities</p> <p>There is a risk that SFC will not adequately reflect the priorities of the Scottish Government and the university and college sectors in its corporate plan or in its funding allocations.</p>	<ul style="list-style-type: none"> ▪ Paper to Council that proposed funding allocations are linked to SG strategic priorities and corporate plan objectives. ▪ Regular meetings with SG Lifelong Learning directorate and senior staff. ▪ Strategic dialogue meetings with university and college sectors 	<ul style="list-style-type: none"> ▪ Review documentation of links between corporate plan, funding allocations and SG strategic priorities. ▪ Monitor minutes from strategic dialogue meetings. 	<ul style="list-style-type: none"> ▪ The Corporate Plan 2009-2012 has identified 7 outcomes which are linked with the SG's National Performance Framework and have been developed following consultation with stakeholders. The relevant documentation has been reviewed and no issues identified.



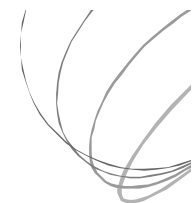
Risk	Source of assurance	Planned audit action	Outcome
<p>3. Going Concern in the FE sector</p> <p>There is a history of going concern problems in a number of colleges and the implementation of FRS 17 has increased the deficit position in a number of cases. There is a risk that going concern problems could impact upon the delivery of further education services, particularly in the current economic climate.</p>	<ul style="list-style-type: none"> ▪ SFC has issued guidance information for colleges and universities regarding the implementation of FRS 17. ▪ SFC reviews the Recovery Plans of organisations with a deficit position and monitors progress against these plans. ▪ SFC's response to the economic conditions with targeted funding to support colleges in dealing with factors such as unemployment and an associated rise in applications. 	<ul style="list-style-type: none"> ▪ Monitor the approach to the disclosure requirements of FRS 17 in further education institutions' accounts. ▪ Review of SFC's monitoring of Recovery Plans. ▪ Monitor SFC's review of impact of new funding streams aimed at assisting colleges during the downturn. 	<ul style="list-style-type: none"> ▪ 2 audit qualifications on the 2008/09 College accounts of colleges were due to pension scheme accounting. The downturn in financial markets has increased pension scheme liabilities. We will continue to monitor this issue. ▪ We confirmed that SFC is regularly monitoring the financial health of the bodies that it funds as evidenced by Council minutes. LGS and FED are involved in recovery plans for those most at risk. No issues identified. ▪ We monitored SFC's review of the impact of the new funding streams to colleges. Given the slow recovery from the economic downturn, we will continue to monitor events, the SFC response and follow-up closely.



Risk	Source of assurance	Planned audit action	Outcome
<p>4. Governance/ financial failure of college or institution</p> <p>The risk register notes that weaknesses in college and university governance, leadership and management – including financial failure - may undermine SFC's credibility.</p> <p>There is also a risk of failure by SFC to act timeously in response to a financial or governance/operational failure by a college or university.</p>	<ul style="list-style-type: none"> ▪ Systems and controls put in place within Governance & Management Appraisal & Policy (GMAP) to monitor governance arrangements within further and higher education institutions. ▪ Use of Further Education Development Directorate (FEDD) expertise and support from GMAP where appropriate. ▪ SFC has issued guidance on governance and management matters to colleges and universities. ▪ Internal audit follow-up review of the robustness of the systems and controls within GMAP. 	<ul style="list-style-type: none"> ▪ Monitoring of reports on Institutions' progress and FEDD activities. ▪ Review of external auditors' management letters. ▪ Examination of SFC review of implementation of college governance changes. ▪ Audit Scotland organises twice yearly meetings of the external auditors of all further education institutions. 	<ul style="list-style-type: none"> ▪ We reviewed SFC's monitoring of the financial health of institutions and the governance of colleges via Council minutes and Audit and Compliance Committee papers. ▪ SFC governance guidance reviewed. ▪ An FE Sector meeting was held in November 2009. ▪ No issues identified.



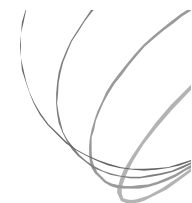
Risk	Source of assurance	Planned audit action	Outcome
<p>5. Estates projects</p> <p>An SFC quarterly performance monitoring report commented that “Successful delivery of estates projects particularly by institutions with little experience of capital project management might prove difficult.</p> <p>There is a risk that colleges do not complete construction of projects as agreed.”</p> <p>There are risks of time and cost overruns which would negatively impact on the SFC’s management of its capital programme.</p>	<ul style="list-style-type: none"> ▪ A Property Support Service (provided by external expert firms) is in place to strengthen and broaden the level of advice for and monitoring of the capital programme. ▪ Gateway approval process in place. ▪ Investment Committee involvement in prioritising and managing the capital programme. 	<ul style="list-style-type: none"> ▪ Review of Property and Capital Funding branch monitoring procedures for the capital programme and the work of the Property Support Service. ▪ Inclusion of key capital projects in grants testing programme. ▪ Review of monthly reports on major projects and Investment Committee minutes. 	<ul style="list-style-type: none"> ▪ Monitoring by the Investment Committee was reviewed. ▪ Sample of capital grant awards tested for appropriate monitoring. ▪ No issues identified.
<p>6. International Financial Reporting Standards</p> <p>SFC is required to submit full IFRS-based accounts for 2009/10.</p> <p>There is a risk that the SFC may not meet deadlines for implementing IFRS.</p>	<ul style="list-style-type: none"> ▪ SFC plans for the implementation of IFRS. ▪ SFC is supported by SG guidance and training. ▪ SFC is being supported by PwC which is acting in a consultancy role with regard to the format of the financial statements. 	<ul style="list-style-type: none"> ▪ Follow up of audit work on 2008/09 IFRS shadow accounts ▪ Monitor SFC’s IFRS plan progress. ▪ Continue to review SFC’s assessment of the accounting areas most likely to impact on the financial statements. 	<ul style="list-style-type: none"> ▪ Follow up of audit work on 2008/09 IFRS shadow accounts. Report issued on 23 February 2010. ▪ Review of SFC additional work in areas in 2009/10 accounts where further work was required e.g. non current assets, financial guarantee contracts etc. ▪ Changes were made to the accounts in relation to non current assets.



Risk	Source of assurance	Planned audit action	Outcome
<p>7. Loan Support and Guarantees</p> <p>SFC is considering putting in place a loan support facility to enable capital projects to be funded via a panel of commercial lenders; the initiative should speed up progress with capital projects and give a better rate of interest to institutions. SFC will act as guarantor.</p> <p>There is a risk that controls over capital budgeting for the new scheme do not operate effectively, exposing SFC to financial and reputational risk.</p>	<ul style="list-style-type: none"> ▪ SFC is conducting a pilot phase to test the operation of the new loan facility. ▪ SG and Grant Thornton are providing advice on the facility, the wording of the guarantee and the accounting treatment for the financial guarantee contract. 	<ul style="list-style-type: none"> ▪ Monitor developments, in particular the results of the pilot testing. ▪ Investigate the appropriateness of the proposed accounting treatment. 	<ul style="list-style-type: none"> ▪ Monitored developments. Pilot testing not yet started. ▪ Discussed and agreed with SFC the proposed accounting treatment.
<h2>Governance and Internal Control</h2>			
<p>8. Performance Measurement</p> <p>There is a risk that the SFC fails to develop a performance measurement framework that is aligned with the SG's National Performance Framework (NPF) thus putting at risk its ability to deliver against NPF outcomes.</p>	<ul style="list-style-type: none"> ▪ SFC is being supported by the SG in developing a performance measurement framework for its Corporate Plan which draws on the NPF. 	<ul style="list-style-type: none"> ▪ Monitor progress with the framework development. 	<ul style="list-style-type: none"> ▪ Progress with the framework development was examined as part of the audit ▪ No issues identified.



Risk	Source of assurance	Planned audit action	Outcome
<p>9. Corporate governance</p> <p>There is a risk that governance arrangements do not adapt to match the changing priorities of key stakeholders, particularly the Scottish Government. The JFTT <i>New Horizons</i> report seeks a new 'lighter touch' role for the SFC which presents challenges for the future in terms of its oversight relationship with fundable bodies.</p>	<ul style="list-style-type: none"> ▪ Internal audit review of Corporate Governance (08/09). ▪ Updated communications and external relations strategy due 2009. ▪ SFC's implementation plan for New Horizons. ▪ SFC project on lighter touch approach. 	<ul style="list-style-type: none"> ▪ Review progress towards implementing the recommendations of the Internal Audit report in the light of changing national priorities. ▪ Review the updated communications and external relations strategy. ▪ Monitor SFC response and developments with regard to New Horizons and lighter touch project. 	<ul style="list-style-type: none"> ▪ No major weaknesses identified and SFC's ongoing implementation of recommendations from the IA report 'Corporate Governance' were reviewed. ▪ SFC's Communications and external relations strategy has not yet been finalised. ▪ We monitored the implementation programme for New Horizons ▪ No issues identified.
<p>10. Organisational re-structuring</p> <p>SF are currently undergoing an organisational restructuring of departments.</p> <p>There is a risk that if the re-structuring is delayed, staffing resource may be unable to deliver the Corporate Plan objectives.</p>	<ul style="list-style-type: none"> ▪ SFC new structure in place with Group Directors; operational plan and team mapping ongoing 	<ul style="list-style-type: none"> ▪ Monitor progress of re-structuring. 	<ul style="list-style-type: none"> ▪ We reviewed progress of re-structuring as part of the audit. ▪ No issues identified.



Risk	Source of assurance	Planned audit action	Outcome
<p>11. Funding Methodologies review</p> <p>The risk register identifies a risk that the Council's review of teaching and research funding methodologies fails to produce an outcome that commands the confidence of a wide range of stakeholders leading to reputational damage and/ or a breakdown in relationships.</p> <p>The risk will be compounded by implementation of proposals from <i>New Horizons</i> and post-RAE changes.</p>	<ul style="list-style-type: none"> ▪ The Teaching Funding Methodologies Review has been replaced by 2 projects, one to implement New Horizons and the other to look strategically at college funding. ▪ Regular liaison with the funding working groups of the Association of Scotland's colleges and Universities Scotland. ▪ Research Excellence Framework consultation being carried out. 	<ul style="list-style-type: none"> ▪ Monitor developments re New Horizons and ensure adequate coverage in grants testing. Review progress on both projects and outcomes of liaison with stakeholders. ▪ Monitor post-RAE proposals for REF and consultation outcomes. 	<ul style="list-style-type: none"> ▪ Progress with two projects (New Horizons and colleges) reviewed and no issues identified. ▪ Post-RAE proposals reviewed and no issues identified.
<p>12. Grant calculations</p> <p>The risk register records a high risk and medium residual risk of errors in information received from the sectors used in calculating grants</p>	<ul style="list-style-type: none"> ▪ Audit of FES/SUM returns by colleges internal auditors and high level checks by Statistics branch and FE funding. ▪ HE data is subject to various checks as listed in the risk register. ▪ Statistics staff have been assisted by Scotland's Colleges in conducting data analysis to improve eligibility checking. 	<ul style="list-style-type: none"> ▪ Audit testing will include a review of the extent to which the controls referred to in the risk register and circulars have been applied. ▪ Monitor outcomes from data analysis (no change to data returns 09/10 but possible changes going forward). 	<ul style="list-style-type: none"> ▪ Grant testing reviewed controls over data. ▪ No issues identified



Risk	Source of assurance	Planned audit action	Outcome
<p>13. Grant clawback</p> <p>There is a risk that grant clawback amounts due are not identified, are incorrectly calculated, fail to take account of late changes, are incorrectly deducted from amounts payable or are incorrectly accounted for.</p>	<ul style="list-style-type: none"> ▪ Systems are in place to request and analyse data from universities and colleges. Processes are explained in circulars and colleges and universities can check accuracy of SFC calculations. ▪ SFC restructuring has merged funding and finance departments which should improve communications and reduce the likelihood of error. 	<ul style="list-style-type: none"> ▪ Grants audit testing will include a review of any residual clawback from 2009 circulars and audited returns, plus arrangements for recovery of amounts from 2010 circulars and audited returns. ▪ Audit work will review any changes to methods for identifying clawback arising from the restructuring. 	<ul style="list-style-type: none"> ▪ Audit testing of clawback income and debtors was satisfactory. ▪ No issues identified
<p>14. Efficiency Savings</p> <p>There is a risk that progress on the achievement of efficiency savings may not be adequately monitored; and that SFC may not achieve its savings targets.</p>	<ul style="list-style-type: none"> ▪ SFC's running cost budget is managed to allow it to meet the efficiency targets. 	<ul style="list-style-type: none"> ▪ Review progress in annual report. 	<ul style="list-style-type: none"> ▪ The 2008-09 end year efficiency project manager statement was reviewed. The target savings for the 3 years were exceeded. No issues identified.
<p>15. Best Value</p> <p>Management arrangements may not be fully developed to meet the best value principles to support secure continuous improvement in performance.</p>	<ul style="list-style-type: none"> ▪ Framework for reporting against Ministerial priorities based on the management Statement with the Scottish Government – including annual reports and quarterly monitoring meetings. ▪ Development of a performance measurement framework for the Council's 2009/12 corporate plan which is intended to better evaluate and demonstrate outcomes. ▪ Internal audit report May 2008 made 4 medium – priority recommendations which were agreed by management. 	<ul style="list-style-type: none"> ▪ Review progress in annual report. ▪ Review SFC evaluation of progress with the framework. ▪ Review implementation of Internal Audit report. 	<ul style="list-style-type: none"> ▪ The performance measurement framework in the new Corporate Plan was reviewed, no issues identified. ▪ The progress of the implementation of the internal audit best value report recommendations were reviewed and no risks were identified.



Risk	Source of assurance	Planned audit action	Outcome
Information Management			
<p>16. IT Security Policy</p> <p>The current ICT security policy, internet acceptable use policy and email acceptable use policy have been recently updated. Data handling guidance is being developed. Potential lack of staff awareness could result in the risk of financial loss, unavailability of services, legal exposure, and loss of confidence in the business's activities or the way it manages personal or other data.</p>	<ul style="list-style-type: none"> ▪ SFC is currently reviewing operational procedures with a view to providing documentation. Procedures will be introduced and reviewed where appropriate on an ongoing basis. ▪ A suite of revised policies on Information Management, ICT Acceptable Use and ICT Monitoring has been introduced and is on intranet with guidance. ▪ Staff are made aware of policy changes by being required to sign-off an ICT Acknowledgement form. In addition, awareness is raised every time a user logs on. ▪ Your Business @ Risk Survey conducted and follow-up likely for 09/10. 	<ul style="list-style-type: none"> ▪ Monitor development of data handling policy. ▪ Evaluation and reporting of findings of follow-up to Your Business @ Risk Survey of SFC staff by specialist ICT auditor. 	<ul style="list-style-type: none"> ▪ We reviewed the development of the data handling policy as part of our audit ▪ YB@R survey was completed. Our Report notes satisfactory progress with some areas to be strengthened. ▪ No issues identified.