



Student Awards Agency Scotland (SAAS)

**External Audit Annual Report to the Accountable Officer and the Auditor
General for Scotland for the financial year ended 31 March 2019**

Audit and Risk Assurance Committee 7 August 2019

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Our audit at a glance



We have fulfilled our responsibilities per International Standards of Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice throughout our work and this final report to the Accountable Officer and the Auditor General for Scotland concludes our work.



Materiality was set at 2% of gross expenditure within our plan, and was updated to reflect the unaudited 2018/19 financial statements at £245,000. We did not identify any adjustments to the draft financial statements based on our work and minor disclosure amendments were discussed and agreed.



Significant audit risks were: management override of controls; and the risk of fraud in expenditure recognition as set out in International Auditing Standards (ISAs UK) and FRC Practice Note 10. Our risk assessment remained unchanged.

An audit underpinned by quality



We have built on our relationship with SAAS management during the year and this has ensured an efficient audit process to allow for the audit to be concluded during July 2019.



Our work was undertaken in accordance with our agreed timetable. The draft financial statements produced by management were of a high standard with complete information. There was difficulty obtaining audit evidence in relation to payroll, however we thank management for their perseverance to obtain this information.



A wider scope audit for SAAS, as set out in our plan, was considered not appropriate. However we have considered your financial planning arrangements and governance, focused on the governance statement.

Contents

Section	Page
1. Introduction	4
2. The financial statements audit	5
3. Financial arrangements	8
Appendices:	
1. Audit adjustments	10
2. Action plan and follow up of 2017/18 recommendations	11
3. Fees, independence, and fraud arrangements	12
4. Respective responsibilities	13
5. Communication of audit matters with the Accountable Officer	14



Adding value through our external audit work

First and foremost our objective is to ensure we deliver a quality external audit which fully complies with International Standards of Auditing (ISAs) UK and the Audit Scotland Code of Practice (2016). By ensuring our audit is efficient and effective, gives you assurance over our opinion.

Through this Annual Report we seek to provide insight and commentary over certain aspects of SAAS's arrangements, sharing relevant practices with the Audit and Risk Assurance Committee and Management here as well as during the year.

We have continued to build on our working relationship with management and our understanding of SAAS as an organisation. We have sought to be pro-active, providing advice to Management during the course of the year. We flexed our year-end financial statements timetable this year to ensure that SAAS had all the information required to prepare the accounts, in particular pensions and it is anticipated we will follow a similar timescale in future years.

Introduction

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2019.

Our work has been undertaken in accordance with International Standards of Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice 2016.

Our report is addressed to David Robb as SAAS Accountable Officer, in respect of his role as set out and agreed with Scottish Ministers. In addition, in accordance with our reporting responsibilities, the report is jointly addressed to the Auditor General for Scotland.

Once finalised this report will be made publically available on the Audit Scotland website (www.audit-scotland.gov.uk)

Our report was presented to the Audit and Risk Assurance Committee on 7 August 2019.

We would like to thank SAAS management and the finance team for an effective year-end audit process and all their support and assistance in the audit process.

Structure of this report

As set out in our Audit Plan (February 2019) we consider in accordance with the Audit Scotland Code of Practice that SAAS is a smaller body. Therefore full wider scope audit is not considered appropriate. Our report concludes on our financial statements audit and certain aspects of SAAS's arrangements as follows:

Financial statements – Section 2 and Appendix 1
SAAS's wider financial arrangements - Section 3



Our Opinion

For the financial year ended 31 March 2019 we intend to issue an opinion which gives:

- A True and fair view of the financial statements
- Regularity – expenditure has been incurred in accordance with the purpose of SAAS
- Other prescribed matters (which include the audited information in the remuneration report)



Financial statement process

This was in line with the timetable we agreed. The draft financial statements were supported by good working papers.

We identified no changes to the financial statement balances, and have no unadjusted differences to report to the Audit and Risk Assurance Committee and the Accountable Officer.

We identified minor disclosure enhancements and these have been reflected in the financial statements.

During the year end we did have difficulty obtaining the information we required in relation to payroll costs and in future years we will work with SAAS management and the Scottish Government Payroll team to ensure what we require for audit purposes is clear and made available on a timely basis.



The financial statements audit



Our audit work was completed in accordance with International Standards in Auditing (UK) (ISAs) and the Audit Scotland Code of Audit Practice (May 2016). Based on our audit procedures performed we issued an unqualified audit opinion on the financial statements including:

- they give a true and fair view
- have been properly prepared in accordance with relevant legislation and standards
- the wider information contained in the financial statements e.g. Performance and Strategic report
- regularity of expenditure
- audited parts of the remuneration and staff report have been prepared in accordance with the guidance

Audit approach and materiality

Our audit approach was set out in our annual audit plan presented to the Audit and Risk Assurance Committee in February 2019. As set out in our plan, our materiality calculations were based on the audited 2017/18 financial statements. We subsequently updated our materiality calculation to be based on the draft 2018/19 financial statements. Overall materiality has been set at £245,000 (2% of gross expenditure) and performance materiality is set at £183,750. (75% of materiality). We reported to management any audit difference identified over £12,250 (Trivial as 5% of materiality) – of which there were none.

We did not identify any additional significant audit risks from those identified in our audit plan. Our work completed in relation to the audit risks identified (management override of controls and risk of fraud in expenditure) is set out in this report alongside our conclusions.

Internal control environment

During the year we sought to understand SAAS's overall control environment (design) as related to the financial statements. In particular we have:

- Considered procedures and controls around related parties, journal entries and other key entity level controls. In particular considered the work of Audit Scotland in their role of Scottish Government external auditors (key financial controls May 2019)
- Performed walkthrough procedures on key financial controls in particular journals, payroll and ledger controls (performed and operated by SAAS in the process)

Our work over controls is limited to our ISA requirements in understanding an entities control environment. Our audit is not controls based and we do not seek reliance over controls. Our audit is fully substantive based in nature.

Internal Audit

As set out in our external audit plan we have not placed formal reliance on the work of the Scottish Government Internal Audit Directorate, SAAS's internal audit provider. We reviewed the internal audit plan and individual reports issued to date, to consider if any impact on our audit approach, with none being noted and reports receiving substantive assurance (Attendance Management) and Reasonable assurance (Workforce and succession planning and Post graduate student allowance scheme) respectively.

The opinion of Internal Audit for the year was reasonable assurance over SAAS arrangements as related to governance, risk and control (under Public Sector Internal Audit Standards). This is appropriately reflected in the governance statement.

Identified audit risks and our conclusions

Overview of our audit risks identified at planning and our proposed approach

	Risk of fraud in revenue and expenditure	Management override of controls
The Risk	<p>As set out in ISA 240, there is a presumed risk that revenue may be misstated due to improper recognition of revenue. SAAS is a Central Government Agency and therefore does not have an income stream. The budget is set by Scottish Government, and they can spend up to that limit, but it is not recognised in the accounts as Income. Therefore as set out in FRC Practice Note 10, which applies to public sector entities, there is a presumed risk of fraud in expenditure recognition</p>	<p>As set out in ISA 240, across all entities there is a presumed risk of fraud being perpetrated by management through its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Override of controls is present in all entities.</p>
Our response	<ul style="list-style-type: none"> • The focus of our risk was on material non-payroll expenditure. We targeted our audit procedures around those transactions with a higher risk of manipulation, being those transactions around the year end. • Performed cut off at year end on pre and post year end transactions and recording • Walkthrough of the key expenditure controls in place • Regularity – Consideration of how expenditure incurred was in accordance with the type/nature of SAAS as an organisation 	<ul style="list-style-type: none"> • A focus on our understanding of how/where management override of controls may occur • Review of the controls over journal entries • Understanding key areas of judgement and estimation within the financial statements and the basis for these judgements and the application of accounting policies • Reviewing unusual and/or significant transactions
Our conclusion	<p>Based on our testing we did not identify any areas of concern in our testing.</p> <p>Through our substantive procedures and sample testing we confirmed expenditure testing was in accordance with the nature of SAAS (regularity).</p> <p>We did not identify any exceptions in our cut-off testing.</p>	<p>Based on our testing we can conclude:</p> <ul style="list-style-type: none"> • There was no evidence of management override in our testing of journals. There is limited ability within SAAS to post and authorise journals, and SAAS use SEAS the Scottish Government system. • SAAS's financial statements do not include judgements or estimates, which reduces the risk of management override • We did not identify any unusual or significant transactions in year.

Narrative elements of your annual accounts

In accordance with our responsibilities we have reviewed your narrative aspects of the Annual Accounts and Report. We have considered the consistency of this narrative with our understanding and the financial statements and have set out our observations below. We have also audited the required information in the remuneration report (marked audited) and have no matters we wish to bring to your attention.

Performance Report

- The accountability report is in line with our understanding of SAAS and sets out the role of SAAS and SAAS's priorities
- The Accountable Officer's statement is easy to read
- Risks are articulated, and aligned to our understanding based on discussions at the Audit and Risk Committee

Overall observations

The "front-end" complies with the FReM and covers relevant aspects of the SPFM. It is consistent with prior year in terms of layout and style and is not too long, and seeks to avoid duplication where possible. Performance data is included and you do get a sense of how SAAS has performed in year through reading the annual report and accounts. .



Remuneration Report

- Has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions thereunder
- The senior managers reflected in the report have been correctly identified in accordance with FReM.

Governance Statement

- As required by the FReM the Governance statement is included in the Accountability report
- No material issues of governance in year that are required to be reported
 - The governance statement is in accordance with the FReM
- The statement is supported by individual assurances to the Accountable Officer over internal controls

Key aspects of your financial statements

As set out in our audit plan we consider particular aspects of your financial statements in relation to management judgements including estimates and where management may have particular options or choices in what accounting standards or disclosure requirements to apply. We have summarised where these apply, and our conclusions below.

Commentary:

SAAS's accounting policies are consistent with the FReM and are unchanged from prior year.

Overall the SAAS accounts are considered straightforward accounts with limited areas of estimate or judgement.

It was noted that notional costs are contained within the accounts. The costs are based on a historic management estimate including yearly uplift. It is recommended that this estimate is reviewed, given this may not accurately reflect the costs to SAAS, applying a yearly uplift without evaluating.

In relation to the audit risk of fraud in respect of expenditure we tested SAAS's cut of arrangements in particular (timing) and identified no issues in accruals or prepayments which would indicate potential fraud.

There are no post balance sheet events or legal uncertainties at year-end.

Finally SAAS, as set out in the performance and accountability reports, consider themselves a going concern. They have an agreed budget with the Scottish Government for 2019/20 and are working on medium term financial planning.

Given SAAS's role as the provider of student fees, loans and bursaries, their role is set out in Scottish legislation and we have no reason to believe this legislation will change. On this basis we agree with managements assertion they meet the going concern criteria.



Financial arrangements

Key observations



SAAS financial position

The Agency receives its funding from the Scottish Government and its annual operating budget is approved as part of the Scottish Government's budget. For 2018/19 the revenue budget was £12.1 million, and a £1.6 million capital budget. In year, SAAS spent £1.047 million in capital and incurred operating costs of £11.721 million. SAAS have a significant role in administering expenditure for Higher Education Student Support (HESS) and nursing bursary scheme on behalf of the Scottish Government. However, these transactions are not reflected in the SAAS accounts, but in the Scottish Government Accounts.

Of total costs of £11.721 million, £8.758 million are staff costs (75%). Capital costs incurred by SAAS are in support of upgrading IT systems and the priorities around digitalisation.

Looking ahead, for 2019/20 SAAS have a slight increase in funding in-year to £12.1million. Capital for 2019/20 is £1.9 million representing a slight increase secured by SAAS.

Priorities for SAAS set out in the approved budget include:

- help support the education sector to increase the number of students in Higher Education from the 20 per cent most deprived communities; and
- continue to improve the safety and security of our IT operating environment and keep abreast of technology changes to reflect service delivery in a digital age.

SAAS have a small finance team. During the year the previous Director of Finance, seconded to support the IT programme, was off unwell and this finance team was overseen by another Director. Towards the end of the year, a Director of Finance was recruited. As the current team is small, SAAS should forward plan regarding succession to ensure they have sufficient capacity in the finance team going forward. This raises potential risks around the capacity of the finance team and wider succession planning. See action plan in the appendices.

As in prior years SAAS have demonstrated good financial management to achieve the budget set. There is limited scope for SAAS when setting the budget as a large proportion of spend is staff costs which are essentially fixed. Any increases in staff costs would either need to be provided for when Scottish Government set the budget and factored in by the Government, or SAAS would need to find alternative efficiencies to fund increases in staff costs. See action plan for action on financial sustainability.



BREXIT

There is considerable uncertainty around the potential impact of Brexit. Likely areas to impact SAAS are: workforce implications; funding; and regulation. We have used Audit Scotland's planning guidance to evaluate the Board's readiness for EU withdrawal across workforce (People and Skills); Finance; and Regulations. Audit Scotland require auditors to conclude on whether audited bodies are 'underprepared', 'partly prepared' or 'well prepared' for EU Withdrawal.

We found that SAAS has incorporated the risk of EU withdrawal into its risk management arrangements and monitored through Management and the Board. SAAS have also published a statement on their website committing to funding students starting in 20/21 for the full duration of their course, illustrating communications with stakeholders. From a corporate perspective, SAAS have considered the impact on staff within the organisation, as per SG recommendation. However, work is ongoing and there are opportunities for further consideration of evaluation of the medium to longer term implications of EU withdrawal once the position is further clarified.

Overall, we conclude that SAAS demonstrates a good level of preparation for EU Withdrawal. We would therefore conclude that the organisation is Well Prepared (at this point in time). However, we would recommend continuous risk management around BREXIT and planning as the process progresses and the position becomes clearer.

Appendices

Audit Adjustments 2018/19

Action plan and follow up of 2017/18 recommendations

Independence, fees and fraud responsibilities

Communication of audit matters with the Accountable Officer

Audit adjustments

Uncorrected and corrected misstatements

We are pleased to report that there were no uncorrected or corrected misstatements to the financial statements arising during our audit which we would like to bring to your attention.

Disclosure misstatements

In accordance with auditing standards we are required to highlight significant disclosure misstatements to allow Audit Committees to evaluate the impact of these matters on the financial statements.

There were no material/significant disclosure misstatements identified we wish to bring to your attention.

Minor changes included:

- The addition of disclosure around notional costs and management estimates.

Action plan and follow up of 2017/18 external audit recommendations

We have set out below, based on our audit work undertaken in 2018/19, those risks and recommendations we consider are of a higher risk to SAAS that Management may wish to consider in the future. We have also completed follow up of our 2017/18 recommendations and this is reflected below for information.

2018/19 External Audit Recommendations

SAAS includes notional costs within the financial statements, to reflect the cost to the organisation of services performed by SG on SAAS behalf. However, this is a historic management estimate where a 2.5% uplift is applied every year. It is recommended that SAAS revisit this estimate going forward as this uplift and cost is not necessarily accurate of the actual cost to the organisation. It is recommended that HR/ staff data is obtained to generate the estimate.

Action as at August 2019

Management response: Agreed. SAAS will undertake a review of the management estimate and look to incorporate a model that supports the audit recommendation and meets the requirements of IAS8

Action owner: Accountable Officer/ Head of Finance

Timescale for implementation: To be considered during 19/20 accounts.

Follow up of 2017/18 External Audit Recommendations

During the year the Director of Finance was absent for a short period of time, and her role was covered by the Head of Finance. SAAS only have a small finance team, and the Head of Finance is not yet a fully qualified accountant and the finance team also has at least one fixed term contractor. Looking forward, suitable succession plans should be in place to ensure the finance team has sufficient capacity and capability going forward.

Action as at August 2019

Management response: The structure of the finance team is currently under review.

Action owner: Accountable Officer

Timescale for implementation: In progress as present and will be concluded by end of December 2019

A significant proportion of SAAS's cost base is payroll costs and largely fixed to ensure the efficient and effective running of SAAS. This leaves limited monies for investment in priorities, including digital transformation. SAAS although only receiving one year budget settlements from Scottish Government should continue to think about future financial scenarios, aligned to the SAAS business plan and continue to have these discussions with the sponsor department.

Management response: SG spending review process is looking to extend into a 3 year planning structure and the Agency will adopt this approach going forward

Action owner: Accountable Officer/Head of Finance

Timescale for implementation: Extended into 3 year plan.

Fees, independence, fraud arrangements

External Audit Fee

Service	Fees £
External Auditor Remuneration	17,320
Pooled Costs	4,460
Contribution to Audit Scotland costs	1,010
Contribution to Performance Audit and Best Value	0
2018/19 Fee	22,790

The audit fee was calculated in accordance with guidance issued by Audit Scotland and agreed with Management.

The above fee has not changed and our final fee was as set out.

Fees for other services

Service	Fees £
We can confirm there are no non-audit fees for the 2018/19 financial year	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 Auditing Practices Board'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 Auditing Practices Board's Ethical Standards.

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.

Fraud arrangements

In assessing our audit risks, the audit team was alert to the possibility of fraud at SAAS.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relation to management override of controls.
- Leading a discussion with those charged of governance (for SAAS this is assumed to be the Audit and Risk Assurance Committee) on their view of fraud. We did this when presenting our audit plan and in the form of management and those charged with governance questionnaires which were received in January 2019.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud
- responding appropriately to any fraud or suspected fraud identified during the audit. – None were identified in-year

As auditors we obtain reasonable but not absolute assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement.

It is **SAAS's** responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we worked with SAAS to review specific areas of fraud risk, including the operation of key financial controls.

We also examined certain policies in place, strategies, standing orders and financial instructions, as relevant to the fraud framework, to ensure that they provide a reasonable framework of internal control.

No suspected frauds or irregularities have been identified by Management and reported in-year.

Communication of audit matters with the Accountable Officer

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	•	•
We are independent of SAAS and have not identified any conflicts of interest		
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	•	•
We have not incurred any non-audit fees during the year and no threats to independence identified		
Significant matters in relation to going concern	•	•
No significant going concern matters identified		
Views about the qualitative aspects of SAAS accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Set out in the Financial statements Section		
Significant findings from the audit		•
No significant findings from our audit		
Significant matters and issues arising during the audit and written representations that have been sought		•
Letter of representation will be shared and signed by the Accountable Officer when signing the financial statements. This is our standard, unmodified letter of representation.		
Significant difficulties encountered during the audit		•
No difficulties encountered		
Significant deficiencies in internal control identified during the audit		•
None identified		
Significant matters arising in connection with related parties		•
None identified		
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
None identified. Nil fraud returns were reported quarterly to Audit Scotland during the year.		
Non-compliance with laws and regulations		•
None noted		
Unadjusted misstatements and material disclosure omissions		•
None noted. Minor disclosure amendments only and these were not material in nature		
Expected modifications to the auditor's report, or emphasis of matter		•
None, an unqualified opinion		

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 above.

We communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to SAAS Management and the Audit and Risk Assurance Committee.



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