

# Scottish Agricultural Science Agency

## Report on the 2005-06 Audit

30 November 2006



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# Executive Summary

## Introduction

In 2005-06 we audited the financial statements of Scottish Agricultural Science Agency and looked at aspects of governance and performance management. This report sets out our key findings.

## Financial Position

We have given an unqualified opinion on the financial statements of Scottish Agricultural Science Agency for 2005-06.

Scottish Agricultural Science Agency's income and expenditure account for the year records gross expenditure of £8.8 million (£7.5 million 2004-05) and income of £9.1 million (£8.9 million 2004-05) resulting in an excess of expenditure over income of £1 million (excess on income over expenditure £1.1 million, 2004-05).

## Governance

SASAs corporate governance and control arrangements operated satisfactorily in the period under review as reflected in the Statement on Internal Control. In this report we make one recommendation with respect to corporate governance and this relates to the operation of a bank account by SASA.

## Performance Management

During 2005-06 we completed a baseline analysis of SASA's management arrangements for achieving Best Value. We found that although SASA's procedures were under development, progress towards achieving Best Value was being made.

I would like to record my thanks to staff and members of the Board for their co-operation and assistance.

Peter Tait CPFA, Assistant Director



# Introduction

## Scope of the Audit

1. This report summarises the findings from our 2005-06 audit of Scottish Agricultural Science Agency. The scope of the audit was set out in our Audit Planning Memorandum (APM), which was submitted to the Audit Committee on 23 February 2006 in draft and in final form on 28 June 2006. This plan described the work we planned to carry out on financial statements, performance and governance.

## Outcome on Risks Identified in the APM

2. Four specific account areas where significant audit risk was identified at the planning stage were detailed in the APM:
  - Expenditure on fixed assets
  - Disposal of fixed assets
  - Income from charging
  - Fees
3. Satisfactory audit test results were obtained in each of the above areas and the detailed outcome against planned activity is summarised at Appendix A.

## Prior Year Follow Up

4. In our 2004-05 audit report, no specific recommendations were made, although we did include an observation relating to the implications and risks to SASA operations of prospective rail developments. During the 2005-06 audit, we noted that SASA continue to work closely with the Scottish Executive and Transport Initiative Edinburgh to ensure that adequate arrangements are in place to maintain operational capacity for SASA.

## Management Action

5. Audit recommendations, together with management comments, on those areas where further improvements could be achieved are included in the action plan at Appendix B of this report.
6. This report to management sets out our findings from the audit carried out. The matters outlined are only those which have come to our attention during the course of our normal audit work and are not necessarily all the weaknesses which may exist.



7. Although we include a number of specific recommendations in this report to strengthen internal control, it is the responsibility of management to determine the extent of the internal control system appropriate to Scottish Agricultural Science Agency. We would stress, however, that an effective internal control system is an essential part of the efficient management of any organisation.
8. The contents of this report have been agreed with relevant officers to confirm factual accuracy.
9. This is the final year of a five year audit appointment. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by SASA staff and members of the Board during the course of our appointment. This report will be submitted to the Auditor General for Scotland and will be published on our website at [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).



# Financial Statements

## Our Responsibilities

10. We audit the financial statements and give an opinion on whether:
  - they give a true and fair view, in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers, of the state of affairs of the body as at 31 March 2006 and of its excess of expenditure over income, recognised gains and losses and cash flows for the year then ended;
  - they and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers; and
  - in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.
  
11. We also reviewed the Statement on Internal Control by:
  - considering compliance with Scottish Executive guidance;
  - considering the adequacy of the process put in place by the Accountable Officer to obtain assurances on systems of internal control; and
  - assessing whether disclosures in the Statement are not inconsistent with the information emerging from our normal audit work.

## Overall Conclusion

12. We gave an unqualified opinion on the financial statements of Scottish Agricultural Science Agency for 2005-06.

## Financial Performance

13. Scottish Agricultural Science Agency's income and expenditure account for the year records gross expenditure of £8.8 million (£7.5 million 2004-05) and income of £9.1 million (£8.9 million 2004-05) resulting in an excess of expenditure over income of £1 million (excess on income over expenditure £1.1 million, 2004-05).



14. Based on analysis in the financial statements much of the increase in gross expenditure can be accounted for by increase costs as a result of relocation disruption as well as consequential non-cash depreciation and impairment charges.
15. In terms of capital expenditure the new HQ becoming operational resulted in an increase in land and buildings fixed assets of £27 million. One material transaction, the sale of the East Craigs site, did not take place during 2005-06 as planned, due to delays in the disposal completion process. This delay did not adversely impact on the financial statements of SASA. The disposal did eventually take place in 2006-07 and will be fully accounted for in that financial year.

## Statement on Internal Control

16. We are satisfied that the Statement complies with Scottish Executive guidance, the process put in place by the Accountable Officer to obtain assurances on systems of internal control is adequate and the contents of the Statement are not inconsistent with the information emerging from our normal audit work.

## ISA 260: Communication of Audit Matters to Those Charged with Governance

17. My responsibilities in relation to the communication of audit matters to those charged with governance are covered in International Standard on Auditing 260 and outcomes against the requirements of the Standard were reported in a letter to the Accountable Officer and presented to the Audit Committee on 28 June 2006, and are reproduced below:

ISA 260 Requirement:	Outcome:
The nature and scope of the audit, including any limitations, and the form of reports expected to be made.	This information was outlined in the Audit Planning Memorandum presented to the Audit Committee.
Expected modifications to the audit report.	We will be issuing a clear audit opinion.
Unadjusted misstatements.	There are no unadjusted misstatements to which we wish to draw attention.
Material weaknesses in the accounting and internal control systems identified during the audit.	The audit has not identified any material weaknesses in accounting and internal control arrangements; the Statement on Internal Control appropriately reflects circumstances.





ISA 260 Requirement:	Outcome:
Views about the qualitative aspects of accounting practices and financial reporting.	There are no significant judgements included in the accounts that I wish to draw to your attention. However, comments on less significant items will be covered in the management letter and in our progress report to the Audit Committee.
Matters specifically required by other auditing standards to be communicated and any other matter relevant to the audit.	Nothing to report

## Issues Arising

18. The 2005-06 financial year was the first where there was a formal requirement in the Government Financial reporting Manual (FReM) for a combined annual report and accounts to be produced. SASA successfully met this requirement. Nevertheless there is some scope for the quality of financial reporting to be enhanced. The preparation of financial statements is largely governed by statutory and professional requirements but also represents an opportunity for SASA to demonstrate a willingness to subscribe to the principles of openness, transparency and accountability. In terms of:

- *openness* - in the operating and financial review part of the annual report, we believe that more information could have been given in relation to potential risks to future SASA operations and how SASA are managing these risks (eg arrangements to ensure operational capacity, in the light of prospective rail developments, or arrangements to ensure capacity to deal with unexpected agricultural disease outbreaks).
- *transparency* - we believe that the financial statements would be made more accessible to readers if there was less accounting terminology and simpler language was used wherever possible or the inclusion of a glossary.
- *accountability* - presentation in the statement on internal control would have been enhanced, if there was reference to the high number and value of manual payments since such transactions, being outwith Scottish Executive corporate internal control mechanisms, are inherently of greater risk.

### Action Point 1



# Governance

## Introduction

19. This section sets out the main findings arising from our review of Scottish Agricultural Science Agency's corporate governance as it relates to:

- systems of internal control;
- overall governance arrangements.

## Systems of Internal Control

### *Sub-Account and Manual payments*

20. During the audit we took account of the work of internal audit and also carried out a significant amount of detailed audit testing in relation to manual payments. The nature and extent of manual payments was in excess of what we would normally expect. The Scottish Public Finance Manual contains detailed requirements that must be complied with regarding bank accounts. In the context of SASA the applicable sections are: Banking and Sub-accounts. The banking section covers general arrangements in relation to Office of the Paymaster General accounts and commercial bank accounts. The Sub-accounts section deals with the operation of bank accounts outwith the corporate Scottish Executive (SEAS) arrangements.

21. At SASA, manual payments are made from a commercial bank account falling within the definition of a sub-account. The need for such accounts should be subject to regular review by SASA in conjunction with the Scottish Executive finance team. Rather than consider in detail, internal control weaknesses associated with the operation of this account (this work has already been undertaken and reported by SASA's internal auditors), we considered whether or not SASA need to have such an account in operation at all. In our opinion corporate Scottish Executive arrangements provide all of the receipts and payments functionality that SASA need including dealing with foreign currency transactions and emergency payments.

### **Action Point 2**



## Overall Governance Arrangements

### *Audit Committee*

22. Our interim audit work included a review of Scottish Agricultural Science Agency's Audit Committee. This review included discussions with management, consideration of the composition and terms of reference of the Committee, and a review of Audit Committee minutes.
23. Overall we found that the Audit Committee operates satisfactorily. However, in terms of non-executive members attendance, it is highly desirable that at least one non-executive who is neither an employee of the Scottish Executive or an Executive Agency of the Scottish Executive is in attendance at each meeting. This would enable SASA to demonstrate, more readily, the independence of the Audit Committee.
24. In terms of administrative arrangements, there is some scope for improvement and we would recommend that administrative support for the Audit Committee be provided by non-finance staff. This would also help SASA demonstrate the independence of the Audit Committee and the administrative processes associated with it.

### **Action Point 3**



# Performance Management

## Introduction

25. This section covers our assessment of the way in which Scottish Agricultural Science Agency secures best value in the use of its resources.

## Best Value

26. There is no statutory duty of Best Value in the wider public sector in Scotland (the Scottish Executive and its Executive Agencies, Executive NDPBs, and the NHS). Instead, the Scottish Executive issued high level guidance in May 2003, followed by more detailed draft secondary guidance in August 2003. This duty can be described as:

- to make arrangements to secure continuous improvement in performance (while maintaining an appropriate balance between quality and cost)
- to have regard to economy, efficiency and effectiveness, and the equal opportunity requirements
- to contribute to the achievement of sustainable development.

27. In May 2005, Ministers decided that they would not bring forward legislation which extends Best Value in the wider public sector. However, Ministers do wish to encourage and embed the principles of Best Value across the wider public sector and revised guidance was issued in May 2006.

28. For 2005-06 Audit Scotland reviewed how well advanced arrangements are in place by public bodies across the central government sector to demonstrate Best Value, and to identify areas of good practice. As part of this review we completed a Best Value analysis to establish baseline information on the management arrangements in place within SASA. The overall aim of this analysis was to establish the organisation's arrangements for taking forward the Best Value agenda and demonstrating continuous improvement.

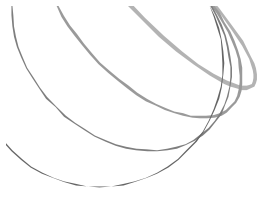
29. Overall, we assessed SASA's overall arrangements to secure Best Value as being adequate. We observed that many of the concepts and practices envisaged by Best Value are already undertaken by SASA management but have not necessarily been explicitly called Best Value. In particular we found the scientific independent quality assessment process to be a long established and robust mechanism for ensuring a high standard of scientific testing.



30. We also note that in the context of SASA's business, a particular challenge exists to maintain capacity and demonstrate Best Value for dealing with unforeseen events (such as outbreaks of agricultural diseases). We are satisfied that appropriate powers and arrangements are in place to deploy resources for dealing with emergencies but have not considered practical aspects of contingency planning by SASA. In relation to all contingency planning the robustness of such plans should be subject to regular testing through desk based dry run exercises and operational exercises.

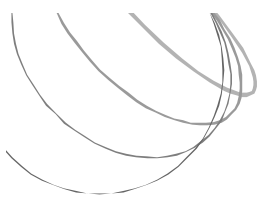
**Action Point 4**

31. In addition, SASA as an Executive Agency is subject to numerous Scottish Executive driven corporate processes and procedures, which necessarily limit the scope of SASA to deviate from them (for example recruitment and selection of staff) so consequently adherence to the concepts and practices of Best Value in such areas, is dependent on how well developed Scottish Executive corporate arrangements are in this context.
32. The results of our review across the wider public sector are currently under evaluation and will be published by Audit Scotland.



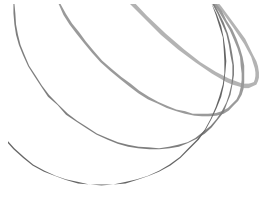
# Appendix A: Outcome on Risks Identified in the Audit Plan

Account area	Audit risk	Planned audit activity	Outcome
Tangible fixed assets - expenditure	Relocation project and new HQ - project expenditure may be incomplete or incorrectly accounted for.	Reliance on internal audit work and review of relocation project files. Review fixed asset register updating and reconciliation. Test a sample of transactions in detail.	Satisfactory audit test results were obtained, in all material respects. In our 'matters arising' we drew attention to a payment that, in our opinion, should have been included in HQ capital project costs rather than treated as revenue expenditure.
Tangible fixed assets – disposals	Fixed asset disposals may not be carried out in accordance with proper procedures	Review fixed asset register updating and asset write off documentation. Test a sample of transactions in detail.	As the old HQ site was not, as planned, disposed of during 2005-06 only immaterial disposals took place and no audit issues arose from audit work carried out in this area.
Income from charging	Regularity of charging schemes	Ensure that all charging schemes are regular and that no residual matters arising from past problems in this area are being accounted for by SASA	Satisfactory audit test results were obtained.
Part time potato inspector fees	Risk of fraud or error due to a lack of segregation of duties	Review internal audit work and test check a small sample of payments	Satisfactory audit test results were obtained.



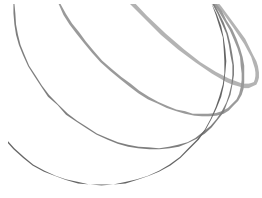
# Appendix B: Action Plan (Recommendations for Further Improvements)

Action Point	Para. No	Issue, Risk and Audit Recommendation	Management Response	Responsible Officer	Target Date
1	18	<p><b>Financial Statements</b></p> <p>Whilst the financial statements for 2005-06 comply with applicable requirements, in all material respects. There is scope for enhancing the quality of them in terms of transparency, openness and accountability.</p> <p><b>Risk</b></p> <p>SASA are not maximising the opportunity to demonstrate compliance with the above principles in the annual report and accounts.</p> <p><b>Recommendation</b></p> <p>We recommend the nature and extent of disclosures in the financial statements be reviewed for 2006/07.</p>	<p>This was the first year of preparing a joint document for Annual Report and Accounts, which encompassed an operating and financial review.</p> <p>There will be a review of the nature and extent of disclosures in the 2006/07 accounts and we will make every effort to enhance the text of the document and make it more approachable and informative.</p>	Head of Administration	February 2007

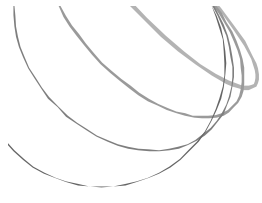


Action Point	Para. No	Issue, Risk and Audit Recommendation	Management Response	Responsible Officer	Target Date
2	21	<p><b>Sub-Account and Manual Payments</b></p> <p>SASA operate a sub-account outwith SE corporate receipt and payment arrangements. The quality and extent of internal controls over the use of the sub-account are lower than SE corporately.</p> <p><b>Risk</b></p> <p>There is an increased risk of fraud and / or error arising as a result of a less robust audit trail, non-SE approved suppliers being used, lack of independent review.</p> <p><b>Recommendation</b></p> <p>We recommend that the need for and internal controls associated with the sub-account be reviewed at the earliest opportunity.</p>	<p>It was recognised by management that there were weaknesses in the issue of manual cheques and a management review resulted in the following actions being taken:</p> <ul style="list-style-type: none"> <li>o A cheque requisition process was introduced.</li> <li>o Finance staff were removed as cheque signatories</li> <li>o A new list of cheque signatories was set up.</li> <li>o Stepped limits were introduced; all cheques over £500 to be signed by SMB.</li> </ul> <p>Because of weaknesses in the central system for dealing with SASA foreign income, the sub account will be maintained. The need for it will be reviewed annually.</p>	Head of Administration	December 2006

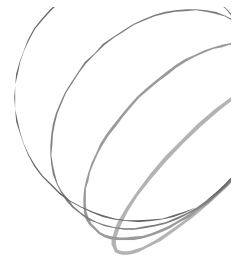




Action Point	Para. No	Issue, Risk and Audit Recommendation	Management Response	Responsible Officer	Target Date
3	22 - 24	<p><b>Audit Committee</b></p> <p>Audit Committee membership includes Scottish Executive and Scottish Executive Executive Agency employees and administrative arrangements associated with the Audit Committee are run by finance staff.</p> <p><i>Risk</i></p> <p>There is a risk that administration and membership of the Audit Committee could be perceived as less than fully independent, thereby limiting the nature and extent of constructive challenge that represents such a valuable component of this key governance function.</p> <p><i>Audit recommendation</i></p> <p>Administrative arrangements associated with the Audit Committee and the nature of non-executives in attendance at each Audit Committee meeting should be reviewed and revised with a view to enhancing SASA's ability to demonstrate the independence and constructive challenge opportunities.</p>	<p>Two members of the committee are from a non Executive background and one of those will soon be retiring as a committee member. Every effort will be taken to ensure that his replacement will be independent from the Executive.</p> <p>It would be desirable that the new member could bring robust corporate, finance or legal skills to the role.</p> <p>Based on the remit of the committee a draft document has been prepared in order to set out the areas to be looked at on a cyclical basis. This will help to ensure that all areas of the remit are addressed.</p> <p>An induction process for new members of the audit committee will be initiated and where required training will be provided.</p>	Head of Administration	February 2007



Action Point	Para. No	Issue, Risk and Audit Recommendation	Management Response	Responsible Officer	Target Date
2	20	<p><b>Contingency Plans</b></p> <p>Contingency arrangements are in place but these do not appear to be tested regularly.</p> <p><b>Risk</b></p> <p>There is a risk that the contingency plan contains weaknesses that may only become apparent once this plan is deployed.</p> <p><b>Recommendation</b></p> <p>We recommend that contingency arrangements for dealing with disease outbreaks be subject to regular testing through desk based and operational exercises.</p>	<p>Major risks are addressed by contingency planning with appropriate testing regimes which include desk exercises in some instances (e.g. for rabies outbreak).</p> <p>Contingency review is in progress and is scheduled to be completed in February 2007. This will be followed by an internal audit exercise which will inform the determination of the scope of testing requirements. It may also require the involvement of the Department (ERAD).</p>	Head of Administration	February 2007



# Appendix C: Auditor General for Scotland published reports

Auditor General for Scotland

*Relocation of Scottish Executive departments, agencies and NDPBs (published 21 September 2006)*

1,653 posts have been transferred from Edinburgh and a further 1,164 posts have been created outside the city. Audit Scotland found that most of the reviews arose from the creation or restructuring of organisations, or from breaks in property leases. Only two of 38 reviews were the result of potential efficiency improvements identified by the organisations in their business plans. In most cases, it was not clear whether relocation would deliver wider policy objectives.

Accounts Commission and Auditor General for Scotland

*Community planning: an initial review (published 16/06/2006)*

Community planning partnerships have made progress but need to do more to show how their work is improving public services. The report also says that their complex remit makes it difficult for them to achieve their aims and calls on the Executive to support community planning more effectively.

Accounts Commission and Auditor General for Scotland

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

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

Auditor General for Scotland

*Scottish Further Education Funding Council: A progress report (published 26 January 2006)*

The Scottish Further and Higher Education Funding Council (Funding Council) is making progress on a number of fronts, according to a report published today by the Auditor General for Scotland.

Auditor General for Scotland

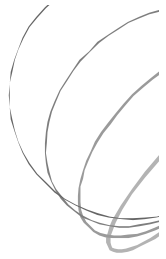
*Leadership development. How Government Works (published 17 November 2005)*

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

Auditor General for Scotland

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

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



Audit Scotland  
Osborne House  
1/5 Osborne Terrace  
Edinburgh EH12 5HG

Telephone  
0845 146 1010  
Fax  
0845 146 1009

[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)