



Grant Thornton

Scottish Agricultural Science Agency

Report on the 2007-08 Audit

24 July 2008

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1 Executive Summary

Introduction

We have audited the financial statements of the Scottish Agricultural Science Agency (SASA) for the year ending 31 March 2008 and examined aspects of SASA's performance and governance arrangements. This report sets out our key findings.

Financial Statements

We have given an unqualified opinion on both SASA's financial statements for 2007-08 and on the regularity of transactions undertaken during the financial year. During the year, SASA incurred gross expenditure of £10.963 million against a revenue budget of £11.183 million representing an underspend of £0.220 million (2%). Staff costs accounted for 46% of total expenditure with administration (26%), capital charges (15%) and depreciation costs (13%) accounting for the remainder.

SASA incurred capital expenditure of £1.121 million against its budget of £1.250 million representing an underspend of £0.129 million (10%).

The draft financial statements and supporting working papers were presented for audit on 27 May 2008 and were of a high standard. This meant that few audit adjustments were required to be made to the accounts.

Governance

We found that SASA's governance arrangements operated well and within a generally sound control environment.

Following the Scottish Government's announcement on 30 January 2008 of its plans to reform the public sector landscape in Scotland, SASA has been merged with the Rural Payments and Inspections Directorate (RPID) within the Scottish Government, with effect from 1 April 2008.

In times of change, organisations tend to face higher operational and financial risk as they manage transitional arrangements and move towards integration, whilst continuing to meet service delivery requirements. The challenge for SASA's management is to ensure that they maintain high standards of corporate governance and service delivery throughout the transitional period of the merger process.

Our review of the internal audit function confirms that it complies with Government Internal Audit Standards and, as a result, we have been able to place reliance on their work for the purposes of our audit.

Performance

We carried out an overview of SASA's arrangements in relation to the duty to deliver best value and efficiency in their operations. SASA has undertaken a range of improvement activities during the year but, as we reported in 2006-07, has not yet developed a formal process for delivering best value or for measuring and monitoring efficiency.

We note, however, that from 1 April 2008, SASA will fall within the Scottish Government's best value framework approach.

SASA has met the financial and service performance targets set by Scottish Ministers, in particular, there has been a significant improvement in the unit cost of scientific work. We note, however, that whilst income has increased overall, there is a continuing decline in income earned from new work from £250,000 in 2005-06 to £169,000 in the 2007-08 financial year. We note that, if the current rate of decline continues then SASA may not meet its income target from new work for 2008-09.

The Way Forward

The merger of SASA with RPID will result in changes to the governance and financial management arrangements for SASA. Our audit did not identify material weaknesses in internal control and we have recognised that SASA and RPID will wish to review overall financial and governance control arrangements following the merger.

As a result we have not included an action plan within this report.

Acknowledgements

This is the final year of our appointment as external auditors to SASA and we would like to take this opportunity to thank the many SASA staff who have assisted us during the period of our appointment.

This report is part of a continuing dialogue between SASA and Grant Thornton and is not, therefore, intended to cover every matter which came to our attention. Our procedures are designed to support our audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in SASA's systems and work practices.

The report is not intended for use by third parties and we do not accept responsibility for any reliance that third parties may place on. The report will be submitted to the Auditor General for Scotland and will be published by him on his website at www.audit-scotland.gov.uk.

Grant Thornton UK LLP
24 July 2008

2 Financial Statements

Our Responsibilities

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, on the state of affairs of SASA as at 31 March 2008 and of its net expenditure, 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 Government Financial Reporting Manual (FReM) 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.

We also review the Statement on Internal Control by:

- considering compliance with Scottish Government 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 consistent with the information emerging from our normal audit work.

Overall Conclusion

We are able to conclude that SASA's financial statements give a true and fair view of the financial position for the period from 1 April 2007 to 31 March 2008 and that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and relevant guidance.

Standard of accounts and supporting papers

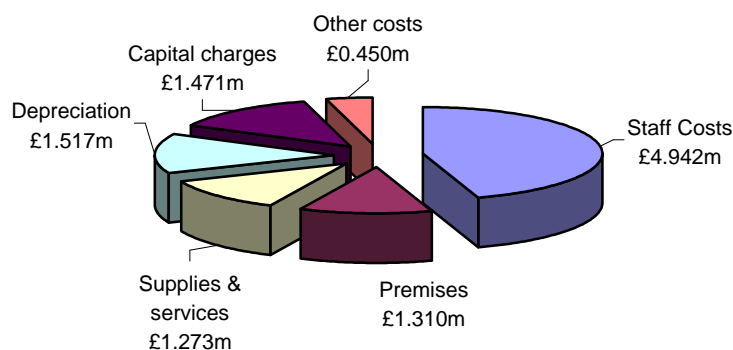
The draft financial statements and supporting working papers were presented for audit on 27 May 2008 and were of a high standard. This meant that few audit adjustments were required to be made to the accounts.

Financial Performance

SASA's Operating Cost Statement for the year records gross operating expenditure of £10.963 million against a revenue budget of £11.183 million resulting in an underspend for the year of £0.220 million (2% of budget).

Staff costs accounted for 45% of total expenditure with capital charges and depreciation costs (27%), supplies and services (12%), premises costs (12%), and other costs (4%), accounting for the remainder. A more detailed analysis of SASA's 2007-08 expenditure is shown in figure 1 below:

Figure 1 - Analysis of SASA 2007-08 expenditure



SASA incurred capital expenditure of £1.121 million against its budget of £1.250 million representing an underspend of £0.129 million (10%).

Statement on Internal Control

The Statement on Internal Control sets out the arrangements established and operated for risk identification and management, proposed future development of arrangements, and review of effectiveness of the system of internal control.

We are satisfied that the Statement complies with Scottish Government guidance, that the process put in place by the Accountable Officer (the Chief Executive) to obtain assurances on systems of internal control are adequate and that the contents of the Statement are consistent with the information emerging from our normal audit work.

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

Our responsibilities in relation to the communication of audit matters to those charged with governance are covered in the International Standard on Auditing 260. Outcomes against the requirements of the Standard are reported in Appendix A to this report. In this context, one minor error has not been adjusted within the accounts.

3 Governance

Introduction

Sound corporate governance is central to demonstrating Best Value, and incorporates the way in which an organisation manages its business, determines strategy and objectives and goes about achieving those objectives. It is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation. Good governance means:

- focusing on the organisation's purpose and on outcomes for citizens and service users;
- performing effectively in clearly defined functions and roles;
- promoting values for the whole organisation and demonstrating the values of good governance through behaviour;
- taking informed, transparent decisions and managing risk;
- developing the capacity and capability of the governing body to be effective; and
- engaging stakeholders and making accountability real.

During the year we reviewed the operation of the internal control framework in place at the Agency covering:

- arrangements for effective corporate governance and stewardship;
- the operation and effectiveness of internal controls over financial systems; and
- steps taken to implement previous audit recommendations.

Key outcomes from our 2007-08 audit

Governance

On 30 January 2008, the Scottish Government announced proposed reforms to the public sector landscape in Scotland. It was announced that the SASA would be merged with the Rural Payments and Inspections Directorate (RPID) within the Scottish Government, with effect from 1 April 2008.

In times of change, organisations tend to face higher operational and financial risk as they manage any transitional arrangements and move towards integration, whilst continuing to meet service delivery requirements.

Our interim review, found that governance arrangements at SASA have continued to improve during 2007/08. In particular:

- the audit committee now comprises non-executive members only, in accordance with best practice guidelines;
- the internal audit service has held workshops with staff on business continuity and risk management;
- strong budgetary monitoring arrangements are in place; and
- a cost allocation system has been introduced and reviewed by internal audit.

The challenge for SASA's management is to ensure that these high standards of corporate governance are maintained throughout the period of the transitional process of the merger with the RPID within the Scottish Government.

Our review of the internal audit function confirms that it complies with Government Internal Audit Standards and, as a result, we have been able to place reliance on their work for the purposes of our audit.

Financial Systems

We have completed our annual review of the core financial systems at SASA to confirm our understanding of the internal controls in place. We have also undertaken testing on the controls to ensure that they are working effectively.

Our review confirms that expected internal controls are in place and continue to operate effectively. We made one observation that the monthly payroll reconciliations were not up to date at the time of our review. Delays in completing reconciliations resulted from changes made by the Scottish Government (who operate central systems) to cost centres on the SEAS ledger system, which meant that effective reconciliations could not be undertaken for some months.

Finally, we noted that the Authorised Signatories list needs to be updated, however action to address this matter will be delayed to take account of the impact of the merger with RPID.

4 Performance

Introduction

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. As part of our annual audit we are required to review aspects of the arrangements to manage performance, as they relate to economy, efficiency and effectiveness in the use of resources.

The Chief Executive, as Accountable Officer for SASA, has a duty to ensure public resources are used economically, efficiently and effectively. These arrangements were extended in April 2002 to include a duty to ensure 'best value' in the use of resources.

Performance Management

SASA has been set four performance targets by Scottish Ministers. The first target is to achieve income of £150,000 from new work or new customers in the financial year. SASA has achieved this target in 2007-08, with income totalling £169,000 although this continues the trend of declining income from new work over recent years as shown by Table 1 below:

Table 1 - Achievement of target income earned from new work

Financial Year	Income Earned from New Work
2005-06	£250,000
2006-07	£201,000
2007-08	£169,000

The relative decline in income has been caused by declining revenues from a major three year contract which ended during the 2006-07 financial year. We note that, if the current rate of decline continues then SASA may not meet its income target for 2008-09.

SASA's second financial target is to improve the unit cost of its scientific work, measured as the cost per direct scientist hour. As shown in Table 2 below, there has been a significant improvement in the unit cost of scientific work linked to increased activity during the year and an overall decline in costs following the move to the Gogarburn site:

Table 2 - Unit cost of scientific work

Financial Year	Unit Cost of Scientific Work (in current prices)
2005-06	£46.08
2006-07	£52.76
2007-08	£44.08

SASA's third performance target is to achieve a customer satisfaction rate of at least 'satisfied' for 95% of its customers. In 2007-08, SASA surveyed customers of the Scottish Seed Potato Classification Scheme, and in each category of performance, over 95% of respondents reported being 'very satisfied' or 'satisfied' with SASA's performance. SASA issued 229 surveys to customers and received 85 responses, representing a 37% response rate.

Ministers also require at least 96% of all scientific tests to be completed within timescales set by customers. SASA also met this target and completed 96% of tests within timescales set by customers.

SASA's systems for reporting performance against ministerial targets have been reviewed by internal audit who confirm that the systems for recording performance information are satisfactory.

Best value and efficient government

We carried out an overview of SASA's arrangements in relation to the duty to deliver best value and efficiency in their operations as part of our 2006-07 audit. This review identified that SASA did not have a formal process in place for best value or for measuring and monitoring efficiency. Our follow up review in 2007-08 confirmed that this position remains unchanged with no significant development in best value arrangements since the prior year.

We note however, that from 1 April 2008, SASA will fall under the Best Value regime adopted by the RPID within the Scottish Government and we have, therefore, made no further recommendation in relation to this matter.

Grant Thornton UK LLP
24 July 2008

Appendix A- Communication of audit matters to those charged with governance

ISA 260 – Communication of audit matters to those charged with governance

Under ISA 260, we are required to consider matters of governance interest that arise from the audit of the financial statements and communicate them with those charged with governance. The areas considered are as follows:

- a) Relationships that may bear on Grant Thornton's independence and the integrity and objectivity of the audit engagement lead and audit staff;
- b) The overall approach to the audit including any limitations thereon, or any additional requirements;
- c) The selection of, or changes in, significant accounting policies and practices that have, or could have a material effect on the entity's financial statements;
- d) The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements;
- e) Audit adjustments, whether recorded or not by the entity that have, or could have a material impact on the entity's financial statements; and
- f) Those uncorrected misstatements aggregated by the auditor during the audit that were determined by management to be immaterial both individually and in aggregate to the financial statements as a whole.

Key Findings

We summarise our key audit findings in relation to the above areas.

Ref	Area	Key Messages
A	Independence	<p>We are able to confirm our independence and objectivity as auditors and note the following:</p> <ul style="list-style-type: none"> • we are independently appointed by Audit Scotland; • we comply with the Auditing Practices Board's Ethical Standards; and • we have not performed any non Code of Audit Practice (the Code) or advisory work during the year.

Appendix A- Communication of audit matters to those charged with governance

Ref	Area	Key Messages
B	Approach to the audit	<p>Our approach to the audit was set out in our 2007-08 audit plan. We have planned our audit in accordance with International Auditing Standards and the Code. Other key factors to highlight include:</p> <ul style="list-style-type: none"> • we consider the materiality of items in the financial statements both in determining the approach to audit them and in determining the impact of any errors; • we have been able to place appropriate reliance on the key accounting systems operating at the SASA for final accounts audit purposes only; and • we have been able to place reliance on the work of internal audit in respect of the key accounting systems.
C	Accounting policies and practices	<p>We consider that SASA has adopted appropriate accounting policies in the areas covered by our testing. Accounting policies adopted were in accordance with the Government Financial Reporting Manual (FRoM).</p>
D	Material risks and exposures	<p>The Board has considered and confirmed that SASA has no material risks and exposures which should be reflected in the financial statements. The Board is asked to confirm this in the Letter of Representation.</p>
E	Audit adjustments and unadjusted errors	<p>We identified some presentational amendments to the accounts. There is one non-material error not adjusted in the accounts.</p>

Appendix A- Communication of audit matters to those charged with governance

Summary of unadjusted audit differences

This is a summary of the audit differences which have not been amended in the accounts.

	Income & Expenditure account		Balance Sheet	
	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Adjustments affecting reported results				
Error identified in the calculation of interest on working capital.		7,808	7,808	
No adjustment made due to non-material nature of the error.				

There are no further adjusted or unadjusted differences to report.