

Scottish Funding Council

Interim Audit Report 2016/17



 AUDIT SCOTLAND

Prepared for Scottish Funding Council
March 2017

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The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
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- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Audit findings

Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at the Scottish Funding Council. This work included testing of key controls within financial systems to gain assurance over the processes and systems used in preparing the financial statements. We will use the results of this testing to determine our approach during the 2016/17 financial statements audit.
2. Our responsibilities under the Code of Audit Practice require us to assess the system of internal control put in place by management. We seek to gain assurance that the audited body:
 - has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements
 - has systems of internal control which provide an adequate means of preventing and detecting error, fraud or corruption
 - complies with established policies, procedures, laws and regulations.

Conclusion

3. We identified a small number of control weaknesses as summarised in [Exhibit 1](#) below. We have developed further audit procedures to gain assurance, where appropriate, in response to these findings as outlined in [Exhibit 1](#). This will enable us to take planned assurance for our audit of the 2016/17 financial statements.
4. Our overall conclusion is that the Scottish Funding Council has adequate systems of internal control subject to the matters raised below.
5. The matters raised in this report should be considered as part of the Accountable Officer's assessment of the review and adequacy of the financial governance processes in place to support the Annual Governance Statement.

Work summary

6. Our 2016/17 testing covered key controls in a number of areas including:
 - bank reconciliations
 - payroll validation and exception reporting
 - authorisation of journals
 - change of supplier bank details
 - IT access controls
 - budget monitoring and control
 - feeder system reconciliations
 - higher and further education funding.

7. The contents of this report have been discussed with relevant officers to confirm factual accuracy. The co-operation and assistance we received during the course of our audit is gratefully acknowledged.

Risks identified

8. The key control risks identified during the interim audit are detailed in [Exhibit 1](#). These findings will inform our approach to the financial statements audit where relevant.

9. Any weaknesses identified represent those that have come to our attention during the course of normal audit work and therefore are not necessarily all the weaknesses that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to the Scottish Funding Council.

Exhibit 1

Key findings and action plan 2016/17

Issue identified	Management response Responsible officer and target date	Additional audit procedures
Audit findings		
<p>Segregation of duties</p> <p>The officer responsible for updating the payroll system, based on information held in the HR system, is also responsible for processing the pay run.</p> <p>There is a risk that the lack of segregation of duties creates an opportunity for unauthorised amendments to be made to payroll data and fraudulent payments to be processed.</p>	<p>Mitigating controls are in place including:</p> <ul style="list-style-type: none"> - detailed authorisation procedures - extensive exception reporting - monthly management accounts together with variance reporting. <p>No further action is required.</p>	<p>We reviewed the mitigating controls in place, which include detailed authorisation procedures and exception reporting, and confirmed that these reduce the risk of fraudulent activity.</p> <p>We will substantively test staff costs as part of our year-end audit.</p>
<p>Access to financial systems</p> <p>Controls over granting and removing access to financial systems operate satisfactorily. We found no evidence, however, that senior officers periodically review the access rights of users of the SunAccounts system to ensure they remain appropriate. The SunAccounts system is used to process invoices, create purchase orders, generate payments and print remittances.</p> <p>There is a risk that fraudulent payments are made by individuals who should not have access to the system.</p>	<p>A suitable senior officer will review the access rights of the SunAccounts system on a periodic basis. The procedures will be updated accordingly.</p> <p>Responsible Officer: Assistant Director of Finance.</p> <p>Target date: 31 May 2017</p>	<p>We reviewed a sample of payments and found no instances where payments were processed or approved by an unauthorised individual.</p>
<p>Authorisation of journal entries</p> <p>Journals are raised by officers on receipt of appropriately authorised documentation. Once journals have been input to the financial ledger they are checked and authorised by a second officer. We found that one of the 15 journals we tested had not been authorised.</p> <p>There is a risk that incorrect journal entries are made which results in errors in the annual accounts.</p>	<p>Mitigating controls are in place including:</p> <ul style="list-style-type: none"> - supervisory checks following ledger entry - monthly management accounts together with variance reporting <p>The journals for the year have been reviewed. This was an isolated occurrence.</p> <p>No further action is required.</p>	<p>We reviewed the mitigating controls in place, which include supervisory checks following ledger entry, and confirmed that these reduce the risk of incorrect journal entries being processed.</p> <p>We will substantively test a sample of journal entries as part of our year-end audit.</p>

Source: Audit Scotland

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