

# Food Standards Scotland

Management Report 2017/18



 AUDIT SCOTLAND

Prepared for Food Standards Scotland  
May 2018

## Who we are

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.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- 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

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## Introduction

1. This report contains a summary of the key issues identified during the interim audit work carried out at Food Standards Scotland (FSS). This work included testing of key controls within financial systems to gain assurance over the processes and systems used in preparing the financial statements.
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. Our review did not find any material weaknesses in the systems of internal control. We did identify a number of areas however where controls were not operating as expected or where improvements could be made as summarised in [Exhibit 1](#). We will be carrying out additional work in response to these findings such as additional substantive testing of transactions. This will enable us to gain the required assurances for the audit of the 2017/18 financial statements.

## Work summary

4. Our 2017/18 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 and IT access controls. Additionally, our testing covered budget monitoring and feeder system reconciliations.



Bank reconciliations



Payroll controls



IT access



Budgets

5. In accordance with *ISA 330: the auditor's response to assessed risk*, our audit judgements are based on current year testing of controls and where appropriate prior year results. Our risk based audit approach allows us to take a three-year cyclical approach to controls testing. This approach enables us to place reliance on previous years' audit work where controls remain unchanged and no significant weaknesses had been identified. Also, where possible we place reliance on the work of internal audit to avoid duplication of effort.
6. 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

7. 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.
8. 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 FSS.

## Exhibit 1

### Key findings and action plan 2017/18

Issue identified	Management response	Responsible officer and target date
<p><b>1. Supplier bank details changes</b></p> <p>The validity of requests to change supplier bank account details are not being adequately checked and there is no clear process in place to confirm these changes. Staff should ensure the validity of requests to change bank account details by obtaining direct confirmation from the supplier using the original contact details.</p> <p><b>There is a risk that fraudulent changes to suppliers' bank accounts are processed resulting in inappropriate expenditure.</b></p>	<p>Due to the requirement for segregation of duties, the Accounts Officer in the Financial Accounting team has the responsibility to setup and amend supplier details in SEAS. Vendor setup forms are issued by the Financial Management Team electronically through the FSS Procurement mailbox to new suppliers. Completed forms are returned by email, details checked and entered onto SEAS and signed off by the Senior Finance Manager.</p> <p>Currently when changes to bank account details have been requested the bank details are amended in SEAS by the Accounts Officer. They contact the supplier to confirm changes however we accept that there was no evidence to support this check.</p> <p>We will amend our procedures in FY 18/19 to align with the process for setting up new suppliers by issuing vendor amendment forms electronically using the existing details we hold for the supplier.</p>	<p>Elaine McLaughlin Senior Finance Manager 11 May 2018</p>
<p><b>2. Employee validation check</b></p> <p>Employee validation checks (i.e. circulating establishment lists to departments to confirm the existence of employees) provides assurance on the completeness and accuracy of</p>	<p>We have in place various checks that are carried out on the FSS payroll. Firstly, there is a yearly budgeting and monthly forecasting process where every branch head lists the staff in post at the yearly exercise and provides updates on a monthly basis.</p>	<p>Jennifer England HR Manager 1 June 2018</p>

Issue identified	Management response	Responsible officer and target date
<p>payroll records and is an important control within any payroll system. It ensures that all staff on the payroll exist and that payments are not being made to "ghost" employees or employees who no longer work for FSS.</p> <p>While regular monitoring is carried out on payroll budgets, FSS do not carry out specific validation exercises to verify the existence of employees on the payroll system.</p> <p>Management should ensure that employee validation exercises are carried out with the positive confirmations by managers being returned to <i>Human Resources</i> for monitoring.</p> <p><b>There is a risk that the payroll system contains inaccurate data and payments are made to employees who do not exist or are no longer employed by FSS.</b></p>	<p>The monthly BCLO and element reports issued by SG payroll staff are reviewed by a senior manager in the team to check staff numbers, allocations to cost centres and total costs. In addition, the work of the Financial Management Team involves checking actual cost centre costs against forecast, raising queries and reviewing differences with branch heads. Any queries on staff pay, allocations, numbers etc. are taken forward with FSS HR.</p> <p>FSS is a small organisation and the team have the knowledge of staff in post, vacancies etc. Any variances to forecast are reported as part of monthly management information to SMT and Branch Heads.</p> <p>In FY18/19 FSS HR will issue a staff list to the head of each branch at least once a year to receive positive confirmation of the staff employed in their area.</p>	
<p><b>3. Bank reconciliations</b></p> <p>Although bank reconciliations are carried out monthly and we have been advised they are checked by a second officer this check is not always evidenced. Audit testing identified only five reconciliations in 2017/18 with evidence of this check. The second officer who reviews and confirms the accuracy of the bank reconciliation should always formally sign and date the statement.</p> <p><b>There is a risk that bank reconciliations are not being completed and checked in a timely manner and there is an increased risk of errors not being identified.</b></p>	<p>The bank reconciliations are carried out every month by the Finance Officer. The monthly balance sheet reconciliations are carried out by the Financial Accountant. The bank reconciliations are checked as part of the process for doing the balance sheet reconciliations which are up to date.</p> <p>Although there was not a physical signed copy of the bank reconciliation for some months in 2017/18, by doing the balance sheet checks this is our evidence that the bank reconciliations are correct.</p> <p>In FY 18/19 the Financial Accountant will countersign and date the monthly bank reconciliations.</p>	<p>Osa Udoh Financial Accountant 1 May 2018</p>
<p><b>4. Overtime and expense claims</b></p> <p>While the accuracy of overtime and expense claims is being checked by management there is no evidence to confirm that claims are reviewed prior to being sent to the Scottish Government for processing. The officer who reviews and confirms the accuracy of the claims should always formally sign and date the document.</p> <p><b>There is an increased risk that incorrect claims are submitted if</b></p>	<p>All claims for overtime and expenses for FSS staff are sent to the Financial Accounting team following sign off by line managers.</p> <p>As FSS does not have access to iExpenses a manual process is followed. The Accounts Officer transfers the data from the monthly claims to a central spreadsheet and categorises the data under various headings before being sent to the SG payroll team for processing. At the time of input the data is checked and any anomalies followed up with individual members of staff. This occasionally leads to corrections in claims.</p>	<p>Osa Udoh Financial Accountant 1 May 2018</p>

Issue identified	Management response	Responsible officer and target date
<p><b>there is no audit trail to confirm checks have been performed.</b></p>	<p>Therefore, we can confirm that checks have been carried out every month.</p> <p>In FY18/19 the Accounts Officer/ Finance Officer will sign and date the front cover sheet to confirm accuracy of claim.</p>	
<p><b>5. IT system access review</b></p> <p>Senior officers do not review the listing of officers' access rights to IT systems to ensure they remain appropriate and excludes former employees.</p> <p><b>There is a risk that officers have inappropriate access rights to IT systems which may allow improper changes to data or result in a lack of segregation of duties.</b></p>	<p>When FSS was first setup on SEAS a number of SG staff were given access to our entity to assist us with the various finance functions. There is still an ongoing requirement for SG to have access mainly for inquiry and maintenance purposes only. The only area with input access is for the payroll team to post pay costs. Any staff that leave FSS will not have access to SEAS as this is through Scots and the IT account is closed when staff leave.</p> <p>We accept that the list we had for SEAS access to the FSS ledger was out of date at the time of the interim audit. Updated lists have now been provided where a number of SG staff responsibilities have now been end dated. SG IT will seek our approval when they receive requests to access our ledger. The senior managers in the finance team will review the IT user access on a regular basis.</p>	<p>Elaine McLaughlin Senior Finance Manager Osa Udoh Financial Accountant 1 April 2018</p>

Source: Audit Scotland

**9.** All our outputs and any matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

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