

# Scottish Funding Council

Management report 2019/20



 AUDIT SCOTLAND

Prepared for the Scottish Funding Council  
March 2020

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# Audit findings

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## Introduction

**1.** This report summarises the findings of our interim audit at the Scottish Funding Council (SFC). The work included testing of key controls within financial systems to gain assurance over the processes and systems used in preparing the annual accounts. The results of this testing will inform our approach to the audit of the 2019/20 annual accounts.

**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 SFC:

- has systems for 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 material misstatement, error, fraud or corruption
- complies with established policies, procedures, laws and regulations.

## Work summary

**3.** We carried out walkthroughs of key controls in the general ledger system and key controls over grant payments to colleges and universities to confirm they are operating as expected. Our testing covered the following areas:

- IT access controls
- feeder systems reconciliations
- budget monitoring
- authorisation of grant payments.

4. We also undertook some early substantive testing of grant payments to colleges and universities and running costs expenditure. We selected a sample of payments covering the period from April 2019 to December 2019.

## Conclusion

5. We identified areas where controls could be strengthened as detailed in [Exhibit 1](#). We will carry out additional work in response to these findings to gain the assurance we require for our audit of SFC's 2019/20 annual accounts.

6. We did not identify any issues from our substantive testing of grant payments to colleges and universities and running costs expenditure. We will perform further substantive testing as part of our year-end audit.

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.

8. The issues identified in preparing this management report are those that have come to our attention during the course of normal audit work and are not necessarily all the risk areas that may exist. It is the responsibility of management to decide on the extent of the internal control system appropriate to SFC.

## Follow-up of prior year findings

9. We also followed up SFC's progress in addressing the four control weaknesses identified in our 2018/19 management report. Two of these recommendations have now been addressed. Further work is required to address the recommendations for the remaining two control weaknesses, as detailed in [Exhibit 1](#).

## Exhibit 1 2019/20 interim audit key findings and action plan

Issue identified	Recommendation	Agreed management action/timing
<b>Audit findings</b>		
<p><b>Feeder system reconciliations</b></p> <p>Officers prepare monthly reconciliations between feeder systems and the financial ledger and investigate reconciling items. Feeder system reconciliations should be checked and approved by a second officer and dated as evidence of timely completion and review.</p> <p>We identified that evidence of second officer review of feeder system reconciliations is not always recorded. Reconciliations are also not always dated to record when they are completed.</p> <p><b>Risk</b></p> <p>Errors in data transfer are not identified and investigated timeously.</p>	<p>Reconciliations should be dated as evidence that they have been completed on a timely basis. A second officer should review the completed reconciliations and evidence this with a signature.</p>	<p>Agreed</p> <p>Whilst reconciliations are completed on a timely basis we will ensure all reconciliations are dated to provide evidence of this.</p> <p>We will also ensure the review by a second officer is evidenced with a signature (or e-mail confirmation) in all cases. It should also be noted that an overarching reconciliation is carried out by the Assistant Director of Finance on a monthly basis.</p> <p>March 2020</p>

Issue identified	Recommendation	Agreed management action/timing
<b>Prior year issues</b>		
<p><b>Supplier bank detail changes</b></p> <p>Staff are required to ensure the validity of requests to change supplier bank account details by obtaining direct confirmation from the supplier using verified contact details. We found that these checks are taking place but that evidence confirming that the check was performed was not always available.</p> <p><b>Risk</b></p> <p>Officers cannot be sure that the proper process has been followed if evidence of checks is not available. There is a risk of financial loss if a fraudulent change is processed.</p>	<p>We recommended that finance officers should retain evidence to confirm they have completed the required checks prior to making changes to supplier bank details. SFC is now retaining evidence of the checks that are being performed. This control could be strengthened by SFC ensuring officers always record how they confirmed supplier bank detail changes are genuine.</p>	<p>We are content that we have fully addressed this requirement and have evidence to support the checks that take place. We are unclear how this residual recommendation could further strengthen the controls that are already in place.</p>
<p><b>Changes to standing data</b></p> <p>There is no formal process in place for changing the general ledger chart of accounts. All members of the finance team can add a code and there is no requirement to have this authorised.</p> <p><b>Risk</b></p> <p>There is a risk of unauthorised changes to the chart of accounts which could result in financial information being inaccurately recorded in the general ledger.</p>	<p>We recommended that a formal process should be put in place to ensure any changes to the general ledger chart of accounts are checked by a second officer. On review we found that there continues to be no formal process in place with no requirement to have a change checked by a second officer.</p>	<p>The Assistant Director of Finance reviews the trial balance and chart of accounts on a monthly basis when preparing monthly returns/accounts.</p> <p>This action addresses this issue.</p>
<p><b>Authorised signatory list</b></p> <p>Authorised signatories are responsible for verifying changes to bank account access, authorising payments and signing cheques.</p> <p>We identified that the authorised signatory list for one of SFC's two bank accounts is out of date. The list contains names of employees who no longer work in the finance team or who have left the organisation.</p> <p><b>Risk</b></p> <p>There is a risk of unauthorised access to bank accounts, with an associated risk of fraud.</p>	<p>The authorised signatory list should be updated as a priority. Senior officers should periodically review bank user access and authorised signatory lists to ensure these are up to date.</p>	<p>SFC has updated the authorised signatory list and there is evidence that senior officers have reviewed both bank user access and authorised signatory lists during 2019/20 to ensure these are up to date.</p> <p><b>Action completed</b></p>
<p><b>Payroll system user access</b></p> <p>Sharing user login details is not good practice. If more than one person is using the same login details it is not possible to identify who processed</p>	<p>All staff who require and have authorised access to the payroll system should be provided with a unique username and password.</p>	<p>Evidence was obtained to confirm that all staff who have authorised access to the payroll system have been</p>

Issue identified	Recommendation	Agreed management action/timing
<p>transactions. Currently only one member of staff has access to the payroll system. We found that another member of staff has been trained on this system, whilst supervised, using the same login details.</p> <p><b>Risk</b></p> <p>There is a risk of improper changes to payroll data.</p>		<p>provided with their own username and password.</p> <p><b>Action completed</b></p>

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Source: Audit Scotland

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**10.** 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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