Scottish Agricultural Science Agency

Report on the 2006-07 Audit

13 August 2007

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Executive Summary

Introduction

We have audited the financial statements of the Scottish Agricultural Science Agency (SASA) for the year ending 31 March 2007 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 2006-07 and on the regularity of transactions undertaken during the financial year. During the year, SASA incurred gross expenditure of £11.088 million against a revenue budget of £10.900 million representing an overspend of £0.188 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 £1.03 million against its budget of £1 million representing an overspend of £0.03 million (3%). Additional costs were incurred during the year in relation to the relocating from SASA' s previous headquarters at East Craigs. We have recommended that SASA review its arrangements for budget setting and monitoring to ensure full account is taken of the changing cost base associated with the move to SASA's new headquarters site at Gogarbank.

SASA's draft financial statements were presented for audit on 4 June 2007, however, they were incomplete and a number of supporting working papers had not been prepared. A revised set of draft accounts was submitted for audit on 27 June 2007, however, these accounts required a number of significant amendments to be processed before they could be finalised, particularly to fully reflect fixed asset transactions and the change in accounting policy for income.

We have recommended that SASA review its accounts closedown procedures in advance of preparing the 2007-08 financial statements.

Governance

We found that SASA's governance arrangements operated well and within a generally sound control environment, commensurate with the scale of SASA's operations. SASA has recently taken action to recruit new non-executive members to its audit committee to strengthen governance arrangements and ensure that they fully comply with best practice guidelines.

SASA procedures for risk management are generally effective, but more consideration could be given to external and financial risks that may not arise during the ordinary course of business.

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 does not have a formal process in place for best value or for measuring and monitoring efficiency, however, the chief executive does keep these matters under review and has implemented a range of improvement initiatives during the year, including:

- the centralisation of all of SASA's activities at Gogarbank. This has allowed the Agency to rationalise administrative support and transport functions to make their processes more efficient; and
- the move to activity based costing for the apportionment of overhead costs charged to customers.

SASA has met its performance targets relating to customer satisfaction and timescales for completing tests and analyses. SASA has also made good progress against the Scottish Ministers' objective of seeking to improve the environmental performance of public bodies, notably through the design of the new headquarters building. The additional costs associated with the move to SASA's new headquarters building has, however, prevented SASA from meeting its ministerial target to reduce unit costs for scientific work.

The Way Forward

Our findings and recommendations are summarised in an Action Plan (Appendix A) that accompanies this report. The Action Plan has been agreed with SASA and incorporates the Management Board's response to audit recommendations.

The report includes some specific recommendations to strengthen internal controls. It is the responsibility of SASA's management to decide the extent of the internal control system appropriate to the organisation.

Acknowledgements

We would like to take this opportunity to thank SASA staff who have been involved in the audit for their assistance and co-operation.

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

13 August 2007

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 2007 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 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 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 2006 to 31 March 2007 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

SASA's draft financial statements were presented for audit on 4 June 2007, however, they were incomplete and a number of supporting working papers had not been prepared. A revised set of draft accounts was submitted for audit on 27 June 2007. These draft accounts required a number of significant amendments to be processed to before they could be finalised.

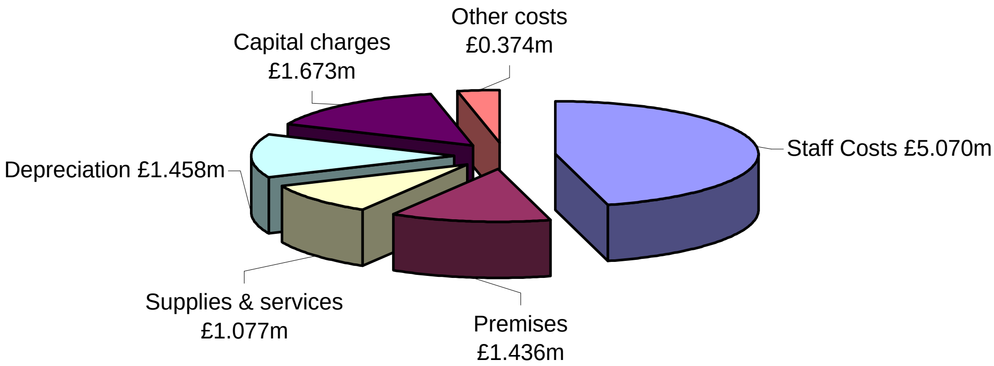
Action plan point 1

Financial Performance

SASA's Operating Cost Statement for the year records gross expenditure of £11.088 million against a revenue budget of £10.900 million representing an overspend of £0.188 million (2%). This overspend occurred as SASA incurred higher than expected capital charges costs associated with the delay in selling the East Craigs site.

Staff costs accounted for 46% of total expenditure with administration (26%), capital charges (15%) and depreciation costs (13%) accounting for the remainder. A more detailed analysis of SASA's 2006-07 expenditure is shown in figure 1 below:

Figure 1 - Analysis of SASA 2006-07 expenditure



SASA incurred capital expenditure of £1.03 million against its budget of £1.00 million representing an overspend of £0.03 million (3%). The overspend occurred largely due to higher than expected costs of relocation from SASA's former headquarters at East Craigs to its new site at Gogarbank.

Refer Action Plan Point 2

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 Executive 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 B to this report. In this context, all the errors we identified were adjusted within the accounts.

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.

As part of our 2006-07 audit, we assessed the adequacy of SASA's corporate governance arrangements against the Scottish Public Finance Manual. We examined:

- the structures and processes for decision making;
- risk management and systems of internal control;
- arrangements for the prevention and detection of fraud and irregularities;
- standards of conduct, integrity and openness; and
- reporting arrangements and monitoring of SASA's overall financial position.

Key outcomes from our 2006-07 audit

We found that SASA's governance arrangements operated well and within a generally sound control environment, commensurate with the scale of SASA's operations. During the audit we noted that SASA has recently taken action to recruit new non-executive members to its audit committee to further strengthen governance arrangements and ensure that they fully comply with best practice guidelines.

SASA procedures for risk management are generally effective, but more consideration could be given to external and financial risks that may not arise during the ordinary course of business.

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

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 plan reviews of 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 two financial targets by Scottish Ministers. The first target is to achieve target income of £150,000 from new work or new customers in the financial year. SASA has achieved this target in 2006-07, with income totalling £201,000 although overall income earned has been declining in 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
2004-05	£310,000
2005-06	£250,000
2006-07	£201,000

The relative decline in income has been caused by declining revenues from a major 3 year contract which ended during the 2006-07 financial year.

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, SASA has been unable to meet this target in recent years as a result of the costs of moving to new headquarters and the additional running costs associated with temporarily holding both the East Craigs and Gogarbank sites.

Table 2 - Unit cost of scientific work

Financial Year	Unit Cost of Scientific Work (in current prices)
2004-05	£42.20
2005-06	£46.08
2006-07	£52.76

SASA anticipate improving its unit cost performance in future years following completion of the move to new headquarters in Gogarbank.

Action plan point 3

SASA is also set a number of operational performance targets by Scottish Ministers. A key target is to ensure that at least 95% of its customers are satisfied with the service SASA provides. SASA monitor performance against this target through a rolling programme of consultation that targets different groups of customers each year. In the 2006-07 financial year, SASA sent 542 questionnaires to the Official Seed Testing Station (OSTS). The questionnaire returns recorded that 95% of surveyed customers were satisfied with SASA's service.

SASA is also required to ensure that 96% of all scientific tests and analyses are completed within timescales set by customers. SASA has exceeded its performance with 98.6% of tests delivered within time deadlines. This represents an impressive performance, particularly in the context of SASA's relocation to Gogarbank during the year.

SASA's performance against ministerial targets is not reviewed by internal audit and no assurance statement is given in relation to the accuracy of reported data.

Action plan point 4

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. SASA does not have a formal process in place for best value or for measuring and monitoring efficiency. However, the chief executive does keep these matters under review and a range of improvement initiatives have been implemented during the year, including:

- the centralisation of all of SASA's activities at Gogarbank. This has allowed the Agency to rationalise administrative support and transport functions to make their processes more efficient; and
- the move to activity based costing for the apportionment of overhead costs charged to customers.

Action Plan Point 5

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13 August 2007

Appendix A – Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
Statement of internal control					
1	SASA's draft accounts required a number of significant amendments to be processed to before they could be finalised.	Medium	SASA should review its accounts closedown and review procedures prior to submitting draft accounts for audit in 2007-08.	The problem was not the accounts closedown procedure but a significant one off problem in agreeing fixed asset figures from two different accounting systems; this was made more complicated by the revaluation and disposal of a significant number and value of fixed assets. A review of the 2006/07 close down procedures will take place, with a view to improving procedures.	31 December 2007
2	SASA overspent against both its revenue and capital budgets during the financial year.	Medium	SASA should review its budget setting and monitoring arrangements to ensure they take full account of the changing cost base associated with the move to the Agency's new headquarters site at Gogarbank.	There are rigorous budgeting and monitoring procedures in place and improvements have been made to the 2007/08 procedures. The reason SASA overspent in the revenue budget is that capital charges had to be estimated and could only be calculated accurately after the budget was set, when the formal valuation for the new HQ premises had been notified by the Local Authority Assessor. We agree that there was capital overspend of £30k and this is within agreed tolerances.	31 December 2007

No	Finding	Risk	Recommendation	Management Response	Implementation date
Performance					
3	SASA has not met its target to improve the unit cost of its scientific work in recent years.	Medium	SASA should take steps to ensure it meets its unit cost target for scientific work in future years.	It was not possible to meet these targets due to relocation; a new base line figure needs to be calculated, so that the target is realistic and achievable. It would be necessary to agree a new baseline with the Scottish Ministers.	31 March 2008
4	Performance against Ministerial targets is not reviewed by internal audit and no assurance statement is given in relation to the accuracy of their calculation and reporting.	Low	SASA should consider the need to obtain independent assurance on the accuracy of data used to measure and report its performance against set targets.	This has not been seen as a high priority, but we will give consideration as to the best method of receiving assurance.	31 December 2007
5	SASA has not yet established a formal approach to best value or efficient government.	Medium	SASA should formalise its approach to achieving best value and efficiency in its operations.	SASA has procedures in place to ensure best value, but will seek to formalise this in a policy document. A major Activity Based Costing exercise is well under way and is expected to introduce significant benefits.	31 March 2008

Appendix B - 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	We are able to confirm our independence and objectivity as auditors and note the following: • 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.

Ref	Area	Key Messages
B	Approach to the audit	Our approach to the audit was set out in our 2006-07 audit plan. We have planned our audit in accordance with International Auditing Standards and the Code. Other key factors to highlight include: • 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	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 (FReM). The Board has considered and confirmed that SASA remains a going concern. The Board is asked to confirm this through the Letter of Representation.
D	Material risks and exposures	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.
E	Audit adjustments and unadjusted errors	We identified several disclosure amendments and reclassifications to improve the presentation of the accounts. These are outlined below. There were no material errors that were not adjusted in the accounts.

Accounting Issues

Standard of accounts and supporting papers

SASA's draft financial statements were presented for audit on 4 June 2007, however, they were incomplete and a number of supporting working papers had not been prepared. A revised set of draft accounts was submitted for audit on 27 June 2007. These draft accounts required a number of significant amendments to be processed to before they could be finalised.

Classification of Fixed Assets

Expenditure on IT software had been incorrectly been classified as tangible fixed assets rather than as intangible fixed assets as required by the FreM. An adjustment was made to reflect intangible assets incorrectly classified in previous years, and current development costs relating to software. The accounts have been adjusted to correct for this error. This also required a prior year adjustment to reflect the comparator figures for 2005-06.

Disposal of Fixed Assets at Former Headquarters

The East Craigs site was classified as a surplus asset prior to disposal and revalued during 2006-07 to the market value, so no profit or loss should have been made on the sale. The draft accounts incorrectly recorded a loss of £90k relating to the sale of the East Craigs site, as finance staff incorrectly concluded that some items of plant and machinery had not been included in the revaluation. The accounts have been adjusted to correct for this error.

Provision for Early Retirement Costs

One member of staff took early retirement during 2006-07, however, the full costs associated with the associated early retirement costs had not been charged to the operating cost statement. The accounts have been adjusted to correct for this error.

Summary of adjusted audit differences

This is a summary of audit differences processed by SASA during the course of our audit.

	Income & Expenditure account		**Balance Sheet**	
	Dr £000s	**Cr £000s**	**Dr £000s**	**Cr £000s**
Misclassification or disclosure adjustments				
Intangible fixed assets held within the tangible fixed asset balance			408	408
Adjustments affecting reported results				
Adjustment of loss on disposal of fixed assets		91	91	
Adjustment for Provision for Early Retirement Costs	95			95

There are no unadjusted differences to report.

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