Scottish Fisheries Protection Agency

Report on the 2006-07 Audit

July 2007

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Executive Summary

Introduction

We have audited the financial statements of the Scottish Fisheries Protection Agency (SFPA) for 2006-07 and examined aspects of SFPA's performance and governance arrangements. This report sets out our key findings.

Financial Statements

We have given an unqualified opinion on the financial statements of SFPA for 2006-07 and on the regularity of transactions undertaken during the financial year. During the year, SFPA incurred expenditure of £21.107 million. Staff costs accounted for 52% of total expenditure with other operating expenditure (48%) accounting for the remainder. The budget outturn, adjusted for notional costs, was £20.739 million, resulting in an underspend of £0.647 million for the year.

SFPA incurred capital expenditure of £9.171 million against a budget of £10.5 million during the year. We noted the continuing delay in the capital project to replace the Agency's fleet of aircraft.

SFPA's draft financial statements were presented for audit on 4 June 2007, in advance of the agreed deadline for submission. The accounts and supporting working papers were of a good standard and, as a result, few adjustments were required to be processed following our audit.

Governance

We found that SFPA's governance arrangements operated well and within a generally sound control environment. SFPA complies with the good practice guidance in relation to governance, as outlined in the Scottish Public Finance Manual, in so far as it is relevant to its role. We identified a small number of areas for improvement in overall governance arrangements.

Our review of internal audit arrangements found that SFPA's internal auditors complied with the requirements of the Government Internal Audit Manual, and we were able to place reliance on their work.

SFPA has reviewed its procurement process following the failed tender exercise in 2005-06. The SFPA has taken action during 2006-07 to improve its overall procurement arrangements. It is essential that formal plans and procedures on contracts and tendering are in place before the next major procurement begins.

Performance

We carried out an overview of SFPA's arrangements in relation to the duty to deliver best value and efficiency in its operations. Our review found that SFPA does not yet have a formal approach in place to demonstrate that it achieves best value and efficiency in its operations.

The SFPA publishes key performance indicators (KPIs) that provide information on operational and financial performance. The KPIs are reviewed by the SFPA's internal auditors, who confirmed that reported performance was "accurately calculated from supporting data". SFPA met its target performance level for 6 out of its 8 KPIs during 2006-07.

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 management and incorporates the management response to audit recommendations.

The report includes some specific recommendations to strengthen internal controls. It is the responsibility of the SFPA and its Accountable Officer to determine the extent of the internal control system appropriate to its operations.

Acknowledgements

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

This report is part of a continuing dialogue between SFPA and Grant Thornton UK LLP 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 SFPA'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 upon it. The report will be submitted to the Auditor General for Scotland and will be published by him on his website at <u>www.audit-scotland.gov.uk</u>.

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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 SFPA 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 obtained from our normal audit work.

Overall Conclusion

We have given an unqualified opinion on the financial statements of SFPA for the 2006-07 financial statements. We are able to conclude that the financial statements of SFPA 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

SFPA's draft financial statements were presented for audit on 4 June 2007. The accounts and supporting working papers were of a high standard and, as a result, few adjustments were required to be processed following our audit.

Financial Performance

SFPA's Operating Cost Statement for the year records a net operating cost for the financial year of £21.107 million. This total includes costs of capital charge of £1.341 million and depreciation charges of £2.291 million. The budget outturn, adjusted for notional costs, was £20.739 million, giving an underspend of £0.647 million for the year. The underspend is caused by the gain on disposal of the former fisheries protection vessel, FPV *Westra*.

SFPA's capital budget for 2006-07 was £10.5 million. Total capital expenditure was £9.171 million, giving a budget underspend of £1.329 million. The underspend relates to delays on the aircraft replacement project which is now almost 1 year behind schedule. SFPA has taken action to obtain compensation from the contractor in relation to the delay and continues to use its existing aircraft fleet for monitoring purposes.

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 to obtain assurances on systems of internal control is adequate, and that the contents of the Statement are consistent with the information obtained from our normal audit work.

We requested an adjustment to the Statement to note SFPA's response to the failed vessel tender exercise in 2005-06.

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 and the matters we are reporting against the requirements of the Standard are contained in Appendix B. In this context, our audit has identified one unadjusted error which we a required to report in accordance with the Standard.

Action plan point 1

Governance

Introduction

Corporate governance is the system by which an organisation directs and controls its functions and relates to its stakeholders, 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. Three fundamental principles of corporate governance apply equally to all public sector bodies - openness, integrity and accountability.

As part of our 2006-07 audit, we assessed the adequacy of SFPA's governance arrangements against good practice standards for the public sector. 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 SFPA's overall financial position.

Corporate governance arrangements

We found that SFPA's corporate governance arrangements operated well and within a generally sound control environment. We identified some areas where further work is required to fully meet the requirements of the Scottish Public Finance Manual (SPFM) and other aspects of good practice in corporate governance, in particular:

- SFPA does not keep a formal record of Senior Management Board meetings;
- membership of the Agency's audit committee is not limited to non executives; and
- a register of interests has not been established for senior Agency staff.

Key controls

We reviewed SFPA's systems of internal control in relation key financial systems as part of our interim audit review. We found that SFPA's systems of internal controls are generally operating effectively.

Internal audit

SFPA appointed Scott Moncrieff as its internal auditor for the year ending 31 March 2007. Our review of the internal audit function confirms that they comply with Government Internal Audit Standards and adopt a risk based approach in planning audit work. As a result we can place reliance on the work of internal audit for the purposes of our audit.

Procurement

The Auditor General for Scotland published a report under Section 22(3) of the Public Finance and Accountability (Scotland) Act 2000 on the 2005-06 audit of the Scottish Fisheries Protection Agency (the Agency). The report concerned the events surrounding the termination of the procurement of a new fishery protection vessel by the Agency in May 2006. The report highlighted failings in the Agency's tendering process whereby some actions did not comply with EU procurement regulations.

SFPA has taken action to address the issues raised in the Auditor General's report. Key improvements have included:

- the Agency has been working with the Scottish Executive's Procurement Directorate (SPD) to develop its tendering procedures. The SPD has employed procurement consultants (Cymbia) to assist the Agency in developing its procurement processes. Cymbia's costs are met by SPD;
- Cymbia commenced work in March 2007. Its initial role is to provide the Agency with advice on the procurement process for marine consultants, who will then assist in developing the next tendering process for a fishery protection vessel; and
- there have been a number of staffing changes in SFPA since the Auditor General's report was published.
 New appointments have been made to both the Marine and Engineering Superintendents posts and the Procurement Manager has retired and a new appointment made.

The cancellation of the tendering process in 2005-06 resulted in additional costs to SFPA of £57,000. SFPA has not incurred any further costs in 2006-07, although we note that the costs of employing procurement consultants have been met by SPD rather than SFPA.

The process for tendering for the next fishery protection vessel is currently suspended, and SFPA is undertaking a review of its operations to consider the need for a new vessel in line with its operational requirements. SFPA should ensure that formal policies and procedures for contracts and tendering are in place if fishery protection vessel replacement programme continues.

Action plan point 2

SFPA disclosed a contingent liability in its 2005-06 financial statements to reflect the potential costs of future legal claims by unsuccessful tenderers. No legal claims have been made to date and SFPA has concluded that none are now expected. As a result SFPA did not include a contingent liability disclosure in the 2006-07 financial statements in relation to this matter.

The Auditor General's report noted that the delay in procuring the Minna type vessel will require SFPA to extend the operating life of the *FPV Vigilant* in order to meet operational requirements. The use of an older vessel will reduce operational capability and result in higher running costs for the Agency. At the time of this report, Ministers had yet to agree additional funding to allow *FPV Vigilant* to operate.

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.

Best value

The Chief Executive 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. A review of best value arrangements for SFPA was issued in 2005-06, which reported that SFPA is generally complying the requirements.

SFPA does not yet, however, have a formal approach in place to demonstrate that it achieves best value and efficiency in its operations.

Action plan point 3

Key Performance Indicators

SFPA publishes key performance indicators (KPIs) that highlight its performance over the year in both operational and financial contexts. The KPIs are reviewed by SFPA's internal auditors, who confirmed that reported performance was "accurately calculated from supporting data". SFPA met its target performance level for 6 out of its 8 KPIs.

SFPA did not fully meet its target for the '% of cases reported within 6 weeks of detection' due to delays in reporting information to the Procurator Fiscal. SFPA improved its performance in meeting the Scottish Executive's target for delivering cash efficiencies from its operations but did not fully achieve its performance target.

A summary of SFPA's performance against KPIs for the year ending 31 March 2007 is shown in Table 1 below:

Table 1: Outturn against key performance indicators

Key Performance Indicators	Target 2006-07 (%)	Performance 2006-07 (%)	Achieved
Aerial Enforcement Effort			
Targets set by EC for Recovery Measures	100	100	✓
% running costs expected on front line activity	89	89	\checkmark
Aerial Surveillance			
% of hours flown on task	85	85	\checkmark
Marine Surveillance			
Effective Patrol Days utilisation (%)	94	95	\checkmark
Sea Fisheries Inspectorate			
Total tonnage landed at Scottish ports checked against log sheet	80	85	✓
Enforcement and Prosecutions			
% of cases reported within 6 weeks of date of detection	97	95	×
Court proceedings or the composition of a PF fine as a % of cases reported	84	85	✓
Finance			
Cash releasing efficiency gain	£170,000	£158,531	×

Action plan point 4

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Appendix A – Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date	
Financial Statements						
1	Total income of £73,892 receivable from the Marine Fisheries Agency in 2006-07 has been netted off expenditure shown within the operating cost statement. This treatment is inconsistent with accounting practice which requires income and expenditure to be disclosed on a gross basis to record the full impact and cost of activities.	Medium	SFPA should monitor performance against budget on a gross basis wherever possible.	The Agency has adjusted it's processes, including the level of budget allocated to the UK Fisheries call centre and will recover costs on a gross basis with the MFA payment shown as direct income.	Immediate	
Proc	urement					
2	SFPA has undertaken a wide ranging review of procurement arrangements in readiness for the next major capital procurement project.	High	SFPA should ensure that formal policies and procedures are in place before the tendering process for the next major capital project begins.	The Agency has carried out a review of its procurement processes in relation to major capital projects and are content that they meet the required criteria.	Completed	
Perfo	ormance					
3	There is no formal approach to best value or efficient government.	Medium	SFPA should set out a more formal plan on how it intends to measure, monitor and report on the achievement of best value and efficiency going forward.	Agreed	31 Dec 2007	
4	SFPA did not fully meet its target for 2 of its 8 key performance indicators.	Medium	SFPA should take action to ensure it fully meets all KPIs for the 2007-08 financial year.	This has been partly addressed at the target submission stage and will be reviewed throughout the year.	ongoing	

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

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

2.6Under 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 the Grant Thornton UK LLP'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

2.7We 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		
		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:		
В	Approach to the audit	 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 SFPA 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. 		
с	Accounting policies and practices	We consider that SFPA 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).		
D	Material risks and exposures	SFPA has considered and confirmed that it has no material risks and exposures which should be reflected in the financial statements. SFPA is asked to confirm this in the Letter of Representation		
E	Audit adjustments and unadjusted errors	We identified several minor disclosure amendments and reclassifications to improve the presentation of the accounts. SFPA has agreed to adjust the accounts.		

Accounting issues

Accounting policies

The accounting policy for furniture and fittings fixed assets requires that all furniture and fittings are regarded as revenue. SFPA's balance sheet records £102,000 of furniture and fittings, purchased before this policy was introduced, as fixed assets.

SFPA has agreed to amend the accounting policy note 1.2 to reflect both current Scottish Executive practice of non-capitalisation of furniture and fittings assets and to enable the inclusion of pre existing furniture and fittings assets as capitalised items, which are depreciated over a ten-year period. The Audit Committee is asked to agree this amended accounting policy.

Call Centre Income and Expenditure

SFPA operate a UK call centre for fishery reporting and recharge 50% of the associated expenditure on a quarterly basis to the Marine Fisheries Agency (MFA). Total income of £73,892 receivable from MFA in 2006-07 has been netted off expenditure shown within the operating cost statement. This treatment is inconsistent with accounting practice which requires income and expenditure to be disclosed on a gross basis to record the full impact and cost of activities.

SFPA has not agreed to amend its 2006-07 accounts for this matter but will consider the issue further when preparing its 2007-08 accounts.

Statement of Internal Control

Our review of the Statement of Internal Control identified that there was no disclosure in relation to activities undertaken to address the procurement issue identified during the 2005-06 audit. Given the high profile nature and public scrutiny of the procurement issue, we recommended that the SPFA should include reference to this matter and steps taken to address this in the Statement of Internal Control.

The Statement was subsequently amended to reflect this.

Summary of accounting adjustments

This is a summary of accounting adjustments processed by SFPA following our audit.

	Income & Expenditure account		Balance Sheet		
	Dr	Cr	Dr	Cr	
	£000s	£000s	£000s	£000s	
Adjustments affecting reported results					
None					
Disclosure Adjustments					
Amended accounting policy note 1.2 to reflect the continued inclusion of furniture and fittings tangible fixed					
assets within the accounts					
Additional disclosure within the Statement of Internal control reflecting actions taken regarding the procurement					
issue in 2006-07					
Additional disclosure note reflecting 52K of losses and special payments incurred during 2006-07					
A number of disclosure adjustments have been agreed to improve clarity and presentation of the accounts,					

which do not affect the reported financial position.

Summary of unadjusted audit differences

This is a summary of unadjusted audit differences identified during the course of our audit. These differences have not been amended, as they are not material to the financial statements.

	Income & Expenditure account		Balance Sheet		
	Dr	Cr	Dr	Cr	
	£000s	£000s	£000s	£000s	
Adjustments affecting reported results					
Adjustment to disclose income and expenditure on a gross basis within the operating cost statement	74	74			
Misclassification or disclosure adjustments None					

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