INFRASTRUCTURE, GOVERNMENT & HEALTHCARE

Crown Office and Procurator Fiscal Service

Annual audit report to the Crown Office and Procurator Fiscal Service and the Auditor General for Scotland
2007-08

3 September 2008

AUDIT

AUDIT ▪ TAX ▪ ADVISORY

Contents

Executive summary	1
Introduction	2
Financial statements audit	4
Corporate governance	5
Performance management	11
Appendix 1: Action plan	13

Notice: About this report
This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ('the *Code*'). This report is for the benefit of only the Crown Office and Procurator Fiscal Service and is made available to Audit Scotland (together the beneficiaries), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes but that we have not taken account of the wider requirements or circumstances of anyone other that the beneficiaries.
Nothing in this report constitutes an opinion on a valuation or legal advice.
We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.
This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

Executive summary

This report summarises our work for 2007-08 and our findings in relation to our audit of the financial statements, corporate governance and performance management arrangements.

Accounts

Following approval of the accounts on 3 September 2008 we issued an audit report expressing an unqualified opinion on the accounts of COPFS for the year ended 31 March 2008 and on the regularity of transactions reflected in those accounts.

Net operating costs were increased by £0.16 million as a result of a transfer of costs from capital to revenue expenditure, following analysis of capital additions.

Corporate governance

We considered corporate governance arrangements as they relate to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct and arrangements for the prevention and detection of corruption, and its financial position.

- The statement on internal control does not disclose any significant weaknesses in the systems of internal control.
- COPFS underspent against its combined revenue and capital allocations by £1.44 million.
- The final underspend against the revenue allocation was £0.97 million higher than forecast throughout the year, as reported to the management board. This was due to £0.70 million underspend on staff costs, £0.40 million on information technology programme costs and £0.30 million on area expenditure, offset by adjustments of £0.41 million identified during the audit process.
- Efficiency savings for 2008-09 and 2009-10 are estimated at £2.30 million and £4.10 million, respectively. The majority of savings will arise from full implementation of summary justice reform.

Performance management

The management board is responsible for meeting key performance indicators. Performance against each of COPFS' key targets is reported each month to the management board via a "health check" report which summarises aggregate performance against each key target, and highlights outliers. COPFS exceeded all five key performance indicators set by the Scottish Ministers.

For 2007-08 management expect to report cash releasing efficiency savings of £3.75 million against a target of £4.25 million. The shortfall arose from delays in the implementation of summary justice reform.

Introduction

Audit framework

This year was the second of our five-year appointment by the Auditor General for Scotland as external auditors of the Crown Office and Procurator Fiscal Service ("COPFS"). This report to COPFS and the Auditor General provides our opinion and conclusions and highlights significant issues arising from our work.

In accordance with Audit Scotland's *Code of Audit Practice* ("the *Code*") the scope of the audit was to:

- provide an opinion on COPFS's accounts and the regularity of your transactions;
- review and report on:
  - your corporate governance arrangements as they relate to: your review of systems of internal control; the prevention and detection of fraud and irregularity; standards of conduct, and prevention and detection of corruption; and your financial position
  - COPFS's arrangements to achieve Best Value
  - other aspects of your arrangements to manage performance, as they relate to economy, efficiency and effectiveness in the use of resources.

We outlined the framework under which we operate, under appointment by Audit Scotland, in the audit plan discussed with COPFS's audit committee.

Background

COPFS is a department of the Scottish Government, headed by the Lord Advocate, responsible for the prosecution of crime in Scotland, the investigation of sudden or suspicious deaths and the investigation of complaints against the police. COPFS comprises two distinct elements – the Crown Office, which comprises the operations group responsible for prosecutions in the High Court and the corporate services group that provides policy and operational support services; and 11 territorial groups headed by an area procurator fiscal accountable for the quality and timeliness of legal decision making in their local area. The department also provides a dedicated victim information and advice service which offers support to victims, bereaved relatives and vulnerable witnesses.

Summary justice reform

The (then) Scottish Executive published its proposals for reforming summary justice in the policy document *Smarter Justice, Safer Communities – Summary Justice Reform Next Steps* (March 2005) in response to recommendations made in the McInnes Report. The document anticipated a system that would be:

- faster and more visible to the communities it serves;
- able to work across organisations effectively and efficiently;

- one that tacked lower level offending quickly and appropriately, leading to reductions in re-offending; and
- involved and engaged with communities, to ensure their concerns were addressed.

The implementation of summary justice reform was phased in from late 2007 through to spring 2008, with the majority of substantive provisions implemented on 10 March 2008. COPFS has undertaken considerable work to develop the necessary systems, policies and processes and to ensure staff have received appropriate training.

Summary justice reform is expected to reduce the caseload of procurators fiscal in the long term through increased use of fixed penalty notices by the police and the expansion of alternative measures to prosecution, including fiscal fines, fiscal compensation orders and fiscal work orders. Indicative figures for the first three months of implementation show that prosecutions in the sheriff court decreased by 13% compared to the same period last year, against an expected 17% decrease, while the number of direct measures issued fell by 5%. Management expect that the full impact of the reform will only be realised following bedding in of legal aid reforms which took effect from June 2008.

Responsibilities of COPFS and its auditors

External auditors do not act as a substitute for COPFS's own responsibilities for putting in place proper arrangements to account for its stewardship of the resources made available to it and its financial performance in the use of those resources; to ensure the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the effectiveness of those arrangements and, through accountable officers, to make arrangements to secure Best Value.

We have structured the report around the headings of financial statements audit, governance arrangements and performance management arrangements.

Acknowledgement

We wish to record our appreciation of the continued co-operation and assistance extended to us by your staff.

Financial statements audit

- We issued unqualified opinions on the accounts.
- Net operating costs were increased by £0.16 million as a result of a transfer of costs from capital to revenue expenditure, following analysis of capital additions.

Audit opinion

Following approval on 3 September 2008 we issued an audit report expressing an unqualified opinion on the accounts of COPFS for the year ended 31 March 2008 and on the regularity of transactions reflected in those accounts.

Chambers Street offices refurbishment

COPFS commissioned a desktop valuation of freehold land and buildings as at 31 March 2008 in line with the fixed asset accounting policies. The overall value of land and buildings reflected within the draft accounts increased by £0.13 million from the valuation at 31 March 2007, but additions to land and buildings during the year totalled £1.03 million. This represented a net decrease in value of £0.90 million which had been charged in full against the revaluation reserve.

We asked management to consider whether the overall decrease in value was as a result of the change in market conditions, consumption of economic benefits, or whether it was a result of capital expenditure being incurred which did not add value to properties. Following further analysis by management, taking into consideration recent market conditions and the types of works undertaken, £0.16 million of expenditure was transferred from capital to revenue expenditure, increasing the net operating costs.

Component accounting

There was a change in the valuer used in 2007-08. Reports produced by the previous valuer included a detailed analysis of land, buildings and plant valuations on a component basis. This is required under UK generally accepted accounting practice. The valuer engaged in 2007-08 was unable to provide this level of detailed information. Management utilised index information to the prior year component values in combination with the valuation report to prepare fixed asset valuations as at 31 March 2008 as a proxy and to allow COPFS to meet the requirements of FRS 15 for interim valuations.

On full implementation of international financial reporting standards ("IFRS") in the public sector, valuation information will be required on a component basis. We understand that COPFS management has continued to liaise with the valuer to ensure that sufficient and appropriate valuation information will be provided to satisfy the requirements of IFRS.

Recommendation 1

Corporate governance

- The statement on internal control does not disclose any significant weaknesses in the systems of internal control.
- COPFS underspent against revenue and capital allocations by £1.44 million.
- The final underspend against the revenue allocation was £0.97 million higher than forecast throughout the year, as reported to the management board. This was due to £0.70 million underspend on staff costs, £0.40 million on information technology programme costs and £0.30 million on area expenditure, offset by adjustments of £0.41 million identified during the audit process.
- Efficiency savings for 2008-09 and 2009-10 are estimated at £2.30 million and £4.10 million, respectively. The majority of savings will arise from full implementation of summary justice reform.

Introduction

Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all bodies.

The Crown Agent, as accountable officer, is responsible for establishing arrangements for ensuring the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. The *Code* requires auditors to review and report on corporate governance arrangements as they relate to:

- COPFS's reviews of its systems of internal control, including its reporting arrangements;
- the prevention and detection of fraud and irregularity;
- standards of conduct and arrangements for the prevention and detection of corruption; and
- its financial position.

Corporate governance framework

The management board has primary responsibility for organisation, management, leadership, and setting the strategic direction of the department. Its members include the top tier of executive management in the department including the Crown Agent and Chief Executive, area procurator fiscals from the three largest areas and two non-executive members, including the head of the Scottish Government justice directorate to ensure alignment of strategic objectives with the wider criminal justice agenda.

The area fiscals group has responsibility for operational policy and business issues within the department. Membership of the group reflects the operational focus, including all area fiscals and executive managers whose remit includes operational issues, such as the director of human resources, the head of business and policy development, the head of victims and diversity and the head of communications. The head of the criminal justice group of the Scottish Government justice directorate is a non-executive member of the group.

A "review of senior structures in the Crown Office and Procurator Fiscal Service" commissioned by the Crown Agent and Chief Executive concluded in January 2008. The purpose of this review was to consider whether the structures, roles and responsibilities at management board and area fiscal level remained fit for purpose and appropriately balanced against the challenges faced by COPFS and to make recommendations for improvements as appropriate. The review made a number of recommendations which have now been implemented for financial year 2008-09. This has resulted in the creation of a post of "chief operating officer" with responsibility for oversight and delivery of operational performance of area prosecution services, enhancement of the role of the deputy chief executive, and changes to the membership of the management board supplemented by a corporate business issues committee chaired by the deputy chief executive. We will consider the effectiveness of the revised governance arrangements in the course of the 2008-09 audit.

The audit committee is established as a sub-committee of the management board. The role of this committee is to support the Crown Agent as accountable officer in his responsibilities for risk, control and governance. The audit committee comprises three non-executive members and meets at least three times per year. The committee's terms of reference are updated and minuted at regular meetings and include its role, effectiveness and membership profile.

We considered the corporate governance arrangements and concluded that the corporate governance framework has been designed and implemented appropriately.

Statement on internal control ("SIC")

The accountable officer is responsible for maintaining and reporting on the system on internal control. The statement provides details of the internal control environment, risk management and control frameworks. The system of internal control is an ongoing process to identify and evaluate the probability and impact of risks that may prevent COPFS from achieving its policies, aims and objectives. Controls are designed to manage risks efficiently, effectively and economically which results in risks being reduced to a reasonable level rather than entirely eliminated. The effectiveness of the system of internal control can therefore only provide reasonable, and not absolute, assurance.

The accountable officer relies on the following support in achieving an effective system of internal control:

- the management board meets monthly to consider the plans and strategic direction of COPFS;
- the work of internal auditors, who submit regular reports to the audit committee including their independent opinion on the adequacy and effectiveness of systems of internal control together with recommendations for improvement;
- comments made by external auditors in the management letter and other reports;
- reports from managers on the steps they are taking to manage risks in their areas of responsibility including progress reports on key objectives; and
- stewardship reports and certificates of assurance received from directors and area procurators fiscal.

The statement on internal control does not include any significant weaknesses.

Risk management

The management board has overall responsibility for the COPFS's risk management strategy, with ownership of risk management at directorate and fiscal area level devolved to the area fiscals group.

The key elements of COPFS's risk management strategy are:

- dual risk identification processes, including a top-down approach which uses environmental analysis and a bottom-up approach which flows from the business planning process;
- the audit committee's responsibility for reviewing the establishment and maintenance of the system of risk management and for reporting to management board;
- the maintenance of a corporate risk register which rates risks according to probability and potential impact;
- fiscal area and divisional risk registers which are published on the staff intranet are maintained to support the corporate risk register, as well as individual risk registers for significant projects;
- ownership of identified risks is allocated to managers who are required to devise 'key risk indicators' to act as an early warning mechanism; and
- requirement for risk owners to provide quarterly updated on progress against the corporate risk management action plan for treating risks.

This comprehensive process demonstrates a commitment to allow risk management to become embedded across COPFS's operations.

Internal audit

Our planned audit approach seeks, wherever possible, to place reliance on the work completed by internal audit to minimise duplication of effort and ensure maximum benefit from the combined audit resource. To support this, in accordance with International Standard on Auditing 610, we have therefore again undertaken a formal evaluation of COPFS's internal audit function. Our evaluation incorporates consideration of both the organisational and operational aspects of the internal audit function, including the scope of internal audit work, the independence of the internal audit function, arrangements to secure due professional care and quality of work performed and reporting mechanisms.

As in 2006-07, we have concluded that we are able to place formal reliance on the findings of internal audit, in particular in relation to the programme of area office visits which are undertaken to provide assurance over the operation of controls across individual offices.

Internal audit have completed work in accordance with the annual audit plan and concluded in their annual assurance report that "*on the basis of the work undertaken, the results of the work carried out by our colleagues on the Scottish Government's corporate systems and the action taken in response to our findings, we are able to provide substantial assurance in respect of COPFS's risk management, controls and governance arrangements.*"

Internal controls

Our work on organisation-wide controls has included the review of relevant policies and procedures and consideration of the adequacy and appropriateness of the content. In addition, we reviewed evidence of processes such as risk monitoring and financial reporting, to confirm these processes are operating as intended. The majority of policies and procedures are available to all COPFS staff on the intranet. This ensures that relevant personnel have access to the current version of key documents at all times.

The design and implementation of organisation-wide controls were found to be effective, but we noted that the formal completion and sign-off of performance appraisal reports were still not completed in a timely manner. Management have recognised weaknesses in the existing system and a special project board was set-up to develop a new system for 2009-10 with interim measures in place to ensure more timely completion in the intervening years.

We identified one significant recommendation in respect of information technology controls. This related to monitoring the financial information backups made during the year to ensure that they did not become corrupted. We also identified some minor areas for enhancement within both financial and IT controls and recognised progress by management in developing disaster recovery and business continuity plans. Management accepted our recommendations.

Prevention and detection of fraud and irregularity

Fraud policy

There is a formal whistle blowing policy governing the procedures to be followed in the event of suspecting or detecting fraud. Where management are made aware of a suspected fraud, the internal fraud response group is convened to co-ordinate an investigation. Membership of this group includes the deputy chief executive, the head of internal audit, a senior civil servant such as an area procurator fiscal, and the director of finance and/or the departmental counter fraud specialist. The fraud response group is responsible for undertaking preliminary investigations, reporting to those charged with governance and proceeding with a follow up investigation if required. Upon conclusion of the investigation, it is the responsibility of the group to decide what further action is necessary, such as disciplinary action or making a report to the police. The group is also responsible for ensuring that all agreed actions are implemented.

We have obtained representations from the accountable officer that all known or suspected instances of fraud were disclosed to us during the audit. There was only one such instance, which was of a non-material nature.

Regularity

In accordance with our responsibilities within the *Code*, we provide an opinion on COPFS's accounts and, as required by relevant authorities, the regularity of transactions. There were no issues arising as a result of our work on regularity.

Financial position

COPFS has underspent against its capital and revenue allocations during the year as shown below.

£ million	Allocation	Actual revenue spend	Underspend on actual outturn	Forecast spend at May 2008	Forecast outturn at May 2008	Variance against forecast
Revenue	95.20	94.15	1.05	95.12	0.08	0.97
Capital	5.90	5.51	0.39	5.68	0.22	0.17
Total	101.10	99.66	1.44	100.8	0.30	1.14

COPFS's revenue budget following the autumn budget review was £94.70 million, which was increased by £0.50 million to £95.20 million following the spring budget revision. The total reportable spend for 2007-08, including capital and revenue, is £99.66 million which is a net underspend of £1.44 million when compared with funding for the year of £101.10 million.

Actual revenue spend was £0.97 million (1.0%) lower than the forecast presented to management board up to May 2008. The variance against forecast can be analysed as follows:

- staff costs per the general ledger and accounts were £0.70 million lower than reported to management board throughout the year;
- the final outturn for the IT division was £0.40 million adrift from the in-year budget monitoring reports, mainly because of a failure to recognise prepaid expenditure incurred during the year;
- prudent forecasting from the individual areas cumulatively gave rise to a £0.30 million underspend, although no individual area was responsible for a significant variance from outturn forecast; and
- adjustments processed during the audit process increased revenue expenditure by £0.41 million.

The difference between staff costs recorded in the general ledger and those reported to management board arose because a credit entry to reverse the accrual of the backdated pay award outstanding at 31 March 2007 was posted to an unallocated cost centre which was not identified by the routine management accounting process. Management consider this to be an isolated incident, but a review of the relationship between management and financial accounting information is underway to ensure that financial outturn is reported on a consistent basis.

Recommendation 2

The significant variance on revenue outturn against forecast highlighted a potential weakness in the financial monitoring processes. Management have responded by reviewing the relationships between management and financial accounting to ensure consistency of reporting and regular reconciliation of management accounting figures to the financial ledger. Outturn figures for each of the 11 areas were individually close to budget, indicating that budget monitoring by area business managers and area procurators fiscal is operating effectively.

To improve the effectiveness of monitoring of corporate budgets, in-year reporting by the corporate services group is to be enhanced from 2008-09 with monthly budget statements being subject to review by the deputy chief executive and the equivalent of an area business manager is to be appointed to the operations division to promote local accountability for financial monitoring.

Financial plans

The 2008-09 budget, as approved by the Scottish Parliament, amounts to £110.20 million, including a revenue allocation of £104.30 million and a capital allocation of £5.90 million. This represents an increase of 9.6% in the revenue budget and no movement in the capital budget. The allocation for solemn cases (the prosecution of serious, complex and organised crime including the prosecution of terrorism, murder, serious assaults, sexual offences, drug and people trafficking, fraud and the confiscation of proceeds of crime) has increased by £8.20 million (21.6%), offset by a decrease of £1.70 million (4.7%) in the budget for summary casework.

The increase in funding for prosecution of solemn cases reflects the upward trend in the number of serious crimes reported in recent years while the decrease for summary casework is indicative of the anticipated efficiencies arising from the full-year implementation of summary justice reform. This reform seeks to maximise efficient usage of the court system and reduce the number of less serious offences brought to court.

The budget allocated to victim information and advice services increased by 68.8% to £2.70 million to fund expanded services to victims and witnesses, including vulnerable adults.

The table below summarises the financial settlement for the next three years which COPFS received in the Scottish Budget Spending Review 2007.

£ million	2007-08	2008-09	2009-10	2010-11
Revenue	95.20	104.30	112.00	113.30
Capital	5.90	5.90	6.70	7.20
Total	101.10	110.20	118.70	120.50

All public bodies are required to meet the Scottish Government's efficiency targets. The efficiency development plan submitted to the Scottish Government in February 2008 forecast cash savings of £2.30 million and £4.10 million in 2008-09 and 2009-10, respectively. The largest source of expected savings is summary justice reform with annual savings for the two years forecast at £1.90 million and £3.70 million, respectively. The lower level of expected savings in 2008-09 takes account of the estimated cost of rationalising legal grade pay. Other sources of expected savings are the implementation of phase two of the "future office system", the case management system adopted by COPFS, and the implementation of process redesign for the provision of staff training, including the opening of a corporate training facility, the Scottish Prosecution College, development of e-learning and increased use of video conferencing.

Performance management

- COPFS exceeded all five key performance indicators set by the Scottish Ministers.
- Strong performance management arrangements are in place, including regular monitoring of key performance indicators by the management board and area fiscals group.
- For 2007-08 management expects to report efficiency savings of £3.75 million against a target of £4.25 million. The shortfall is attributable to the delay in implementation of summary justice reform legislation.

Performance management

The management board is responsible for achievement of key performance indicators. These key performance indicators include serving 80% of sheriff and jury and high court indictments within nine months, "take and implement" which measures how quickly cases are dealt with once reported, and completing 80% of death investigations within 12 weeks. COPFS exceeded all performance targets for 2007-08.

Performance against each of COPFS's key targets is reported each month to the management board via a "healthcheck" report which summarises aggregate performance against each key target, and highlights outliers. Performance against targets is discussed at each management board and area fiscals group meeting, with action points agreed where necessary. This provides strong evidence of senior management monitoring of operational performance.

Audit Scotland performance studies

Audit Scotland undertakes a programme of studies on topics of national importance, covering financial management, governance and performance, on behalf of the Auditor General. One study undertaken of relevance to COPFS is the "Value for money in public sector corporate services" which identified indicators to allow comparisons to be made on the performance of public bodies in corporate matters. COPFS management have demonstrated their commitment to measuring their performance through participation in a Scottish Government benchmarking study on financial performance.

Best Value

Since Audit Scotland's baseline review of COPFS' arrangements to secure Best Value in 2005-06, in which COPFS was found to be 'well developed' in six of the 10 areas under review, no formal updated assessment of COPFS' arrangements against the nine characteristics of Best Value has been conducted. Implementation of summary justice reform, as well as the internal review of senior structures has, however, demonstrated management's commitment to COPFS demonstrating continuing improvement.

2008-09 onwards

Audit Scotland has been committed to extending the Best Value audit regime across the whole public sector for some time now, with significant amounts of development work having taken place during the last year. Using the Scottish Government's nine best value principles as the basis for audit activity, Audit Scotland has selected five areas as priority development areas (use of resources, governance and risk management, accountability, review and option appraisal, and joint working). Audit Scotland is currently developing a series of toolkits for use by auditors, however, the extent to which they will be required to be used in 2008-09 remains to be clarified.

Use of resources – financial management

We agreed with management to pilot the first Best Value toolkit. We have completed our fieldwork. Following a moderation process with Audit Scotland, we will report our findings later this year.

At the time of this report, the high-level results of our work demonstrate an awareness of the need for the financial consequences of all strategic and operational decisions to be considered when the decision is taken. We note, however, that as a result of the review of senior structures, the director of finance is no longer a member of the management board. This is mitigated by the financial experience of the current depute chief executive, however, as financial qualifications are not a formal requirement of that role, we would recommend that this is considered as appropriate over the long term.

We have highlighted earlier in this report actions that management have identified in order to improve the effectiveness of the monitoring of corporate budgets.

Efficient government

Target efficiency savings for 2007-08 under the efficient government initiative were £4.25 million. The Crown Agent wrote to the Permanent Secretary in November 2007, forecasting total savings for the year of £3.75 million with the shortfall attributable to the delay in implementation of summary justice reform legislation which was outwith the direct control of COPFS. The initial savings plan for the year estimated savings of £0.6 million arising from these reforms. Management is in the process of preparing the final report on achievement of 2007-08 targets and expects the final outturn to be in line with the position forecast in November 2007.

Appendix 1: Action plan

Priority rating for performance improvement observations raised		
Grade one: Issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	**Grade two**: Issues that have an important effect on internal controls, but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately, but the weakness remains in the system.	**Grade three**: Issues that would, if corrected, improve the internal control in general, but are not vital to the overall system. These are generally issues of best practice that we feel would be of benefit to you if introduced.

No.	Issue and performance improvement observation	Management response	Responsible officer and due date
1	Following a change in external valuer, the valuation information received at 31 March 2008 was not as detailed as that provided in the previous year. In particular, it did not include valuations of separate components that are required under UK GAAP, but for which there is a stronger need under the transition to International Financial Reporting Standards ("IFRS"). We have been informed that currently the estates staff have responsibility for liaising with valuers regarding the year end valuation exercise with verbal instructions given to the new valuer this year. Since the valuation is for accounting purposes, it is recommended that finance staff should have a greater involvement in the process of obtaining the property valuations to ensure that financial reporting requirements are met. It is further recommended that formal written instructions are issued to the valuers to ensure clarity of requirement. We do note, however, that finance management have entered discussions with colleagues in estates with a view to obtaining the information required under IFRS and we encourage management to continue this dialogue and assist in the preparation of formal instructions to the valuers in future. *Grade two*	Agreed. Finance Director has written to Director of Estates on 25 August 2008 outlining the requirements.	Finance Director Ongoing in line with IFRS implementation programme.

No.	Issue and performance improvement observation	Management response	Responsible officer and due date
2	There was a variance between the financial outturn information reported to the management board during the year and the information contained within the financial ledger. This gave rise to a significant variance between forecast and actual outturn. Management has identified a need to review the relationship between management and financial accounting information to ensure that the financial outturn is reported on a consistent basis. We encourage management to take this review forward to improve the robustness of in-year financial monitoring processes. *Grade two*	Agreed. The Finance Director is in the process of arranging an independent review of the systems to ensure consistency.	Finance Director 31st October 2008

kpmg.co.uk