



Scottish Fisheries Protection Agency

Report on the 2007-08 Audit

24 July 2008

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1 Executive Summary

Introduction

We have audited the financial statements of the Scottish Fisheries Protection Agency (SFPA) for the year ending 31 March 2008 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 both SFPA's financial statements for 2007-08 and on the regularity of transactions undertaken during the financial year. During the year, SFPA incurred net expenditure of £21.7 million against a net revenue budget of £22.2 million, representing an underspend of £0.5 million (2.3%).

The budget underspend primarily relates to payments of £0.7m made to SFPA during the year, in respect of compensation for the late supply of the Agency's new vessel, FPV Hirta.

Staff costs accounted for 49.9% of total expenditure with enforcement (29.7%), capital costs (17.9%) and accommodation costs (1.5%) accounting for the remainder.

SFPA incurred capital expenditure of £8.7 million during the year against a budget of £9.6 million, representing an underspend of £0.9 million (9.8%). The underspend primarily relates to the ongoing delays in the delivery of FPV Hirta and two replacement aircraft. Both FPV Hirta and the new aircraft are expected to be fully operational during the 2008-09 financial year.

SFPA's draft financial statements were presented for audit on 26 June 2008 in line with the agreed timetable. This represented an excellent achievement as the finance section was not fully resourced during the financial year. Our audit identified a number of amendments to the draft accounts to improve presentation and disclosure.

Governance

We found that SFPA's governance arrangements operated well and within a generally sound control environment, commensurate with the scale of SFPA's operations. We note, however, that membership of the SFPA's audit committee is not restricted to non-executive members, and this does not comply with the guidance contained within the Scottish Public Finance Manual. The SFPA has, however, recently taken action to recruit a new non-executive member to its audit committee and this will strengthen governance arrangements going forward.

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 SFPA's arrangements in relation to the duty to deliver best value and efficiency in their operations. The Agency has undertaken a range of improvement activities during the year but, as we reported in 2006-07, has not yet developed a formal process for delivering best value and has not yet developed a systematic process for measuring and monitoring efficiency.

The Agency did not achieve three of its eight performance targets during 2007-08, although in two cases performance was only marginally below target.. The Agency has, however, prepared only 81% of reports for the Crown Office within six weeks of the detection of the offence against a target of 97% and further action is required to improve performance in this area.

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 SFPA 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 SFPA'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 SFPA 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 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 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
24 July 2008

2 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 2008 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 (FRoM) 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 Government 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 SFPA's financial statements give a true and fair view of the financial position for the period from 1 April 2007 to 31 March 2008 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

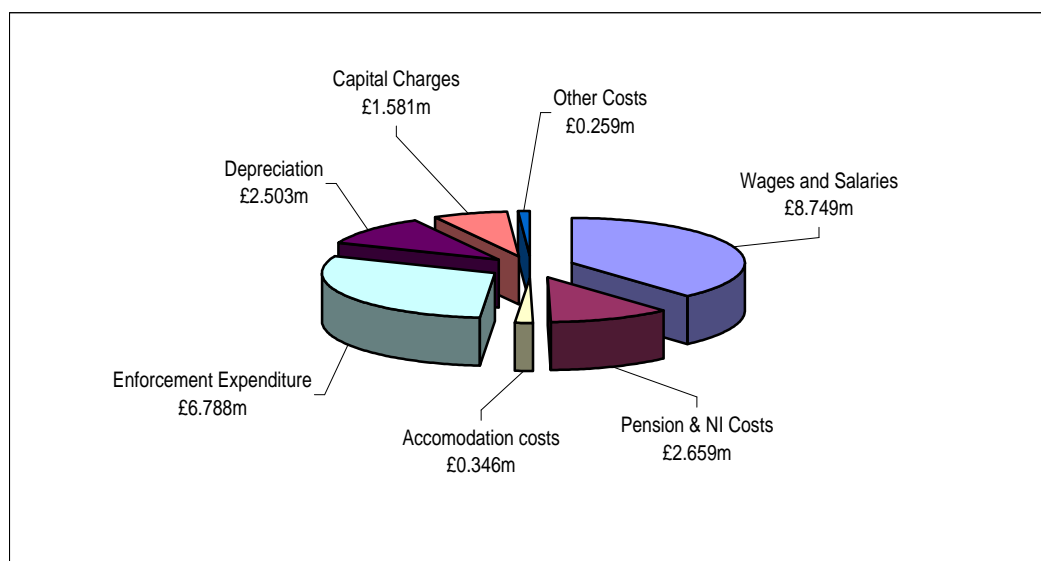
SFPA's draft financial statements were presented for audit on 26 June 2008 in line with the agreed timetable. This represents an excellent achievement as the finance section was not fully resourced during the financial year. A number of changes to the draft accounts were, however, required to be processed following our audit to improve presentation and disclosure.

Financial Performance

SFPA's Operating Cost Statement for the year records net expenditure of £21.787 million against a net revenue budget of £22.255 million representing an underspend of £0.468 million (2%). The Agency incurred approximately £0.25 million of additional running costs in 2007-08 arising primarily from increases in fuel costs. These additional costs were offset by £1.098 million of income; including approximately £0.9 million of exceptional income arising from compensation in respect of contractual delays in delivering FPV Hirta and two replacement aircraft. Compensation receipts of £0.2 million had been anticipated in the 2007-08 budget.

Staff costs accounted for 49.9% of gross expenditure with enforcement costs (29.7%), depreciation and capital charges (17.9%) and accommodation costs (1.5%) accounting for the remainder. A more detailed analysis of SFPA's 2007-08 expenditure is shown in figure one below:

Figure One - Analysis of SFPA 2007-08 expenditure



SFPA incurred capital expenditure of £8.7 million during the year against a budget of £9.6 million, representing an underspend of £0.9 million (9.8%). The underspend primarily relates to the ongoing delays in the delivery of FPV Hirta and replacement aircraft. Both FPV Hirta and the new aircraft commissioned by SFPA are expected to be fully operational during the 2008-09 financial year.

Nominal Ledger

Our interim management letter highlighted several small un-reconciled balances on the nominal ledger, which should be resolved to ensure that the accuracy of financial reporting is not impaired. Our audit shows that these balances remained on the Agency's ledger at the financial year end.

We also note that a recent Scottish Government payroll remapping exercise has resulted in the creation of a payroll suspense account within the Agency's nominal ledger and this may prevent effective reconciliation of payroll costs in 2008-09.

Action plan point 1

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.

We commend the Agency for implementing a system of assurance certificates to formally support the Statement in 2007-08. We have, however, recommended that the Agency review its timetable for the submission of assurance statements from directors to ensure that the Statement can be included within the 2008-09 draft accounts submitted for audit.

Action plan point 2

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.

3 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 2007-08 audit, we assessed the adequacy of SFPA'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 SFPA's overall financial position.

Key outcomes from our 2007-08 audit

We found that SFPA's governance arrangements operated well and within a generally sound control environment, commensurate with the scale of SFPA's operations. We note, however, that membership of the SFPA's audit committee is not restricted to non-executive members, and this does not comply with the guidance contained within the Scottish Public Finance Manual. The SFPA has, however, recently taken action to recruit a new non-executive member to its audit committee and this will strengthen governance arrangements going forward.

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.

Compensation Payments

As part of ongoing arrangements to restructure the Agency and to improve the efficiency and effectiveness of the coastal office operations, SFPA offered early retirement terms to two individuals during the financial year. These individuals accepted early retirement following the negotiation of compensation terms. The Agency followed proper procedure in relation to determining the associated retirement packages, but did not seek formal approval from the Scottish Government before offering compensation payments as required by the Agency's Framework Document.

Following audit advice, management have sought and obtained retrospective approval from the Scottish Government. We have recommended that arrangements should be revisited to ensure that the necessary approval is obtained in advance of any future transactions of this nature.

Action plan point 3

Finance Team Capacity

Recent staffing changes, have led to a significant decline in the resources available to the finance team within SFPA. Whilst, the Agency has adapted well to this, and is currently undertaking recruitment to address the capacity gap, we note that this has led to a decline in the quality of the Agency's management accounts and delays in their production. Good governance, relies upon effective and timely management information and it is important that the Agency act quickly to improve its financial resource capacity.

Action plan point 4

4 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 SFPA, 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

SFPA has been set one financial target by Scottish Ministers. The target is to achieve a cash releasing efficiency gain of £170,000 in the 2007-08 financial year. SFPA has achieved this target in 2007-08, and reported the achievement of cash releasing efficiency gains of £174,888 for the financial year. We note, however, that the Agency does not yet have a systematic process in place for identifying efficiency savings.

SFPA is also set seven operational performance targets by Scottish Ministers. Figure two below, shows the Agency's performance against these targets:

Figure Two - Performance against Operational Targets

Indicator	Target	Actual	Target Met
Agency Enforcement Effort			
Achievement of enforcement targets set by the EC	100	100	Yes
Percentage running costs on frontline activity	89	89	Yes
Aerial Surveillance			
Percentage of hours flown on task	85	83	No
Marine Surveillance			
Percentage effective patrol days utilisation	96	95	No
Sea Fisheries Inspectorate			
Percentage of declared landings checked	80	86	Yes

Indicator	Target	Actual	Target Met
Enforcement and Prosecutions			
Percentage of cases where reports to the Crown Office are prepared and ready for submission within six weeks of the detection of the offence	97	81	No
Percentage of cases where reports to the Crown Office is submitted or other punitive or remedial action is instigated by the Agency	85	85	Yes

The Agency did not, therefore, achieved three of its operational performance targets during 2007-08, although in two cases performance was only marginally below target.. The Agency has, however, prepared only 81% of reports for the Crown Office within six weeks of the detection of the offence against a target of 97% and further action is required to improve performance in this area.

Action Plan Point 5

Best value and efficient government

We carried out an overview of SFPA's arrangements in relation to the duty to deliver best value and efficiency in their operations. The Agency has undertaken a range of improvement activities during the year (for example, restructuring coastal offices to improve efficiency) but, as we reported in 2006-07, has not yet developed a formal process for delivering best value or for measuring and monitoring efficiency.

Action Plan Point 6

Grant Thornton UK LLP
24 July 2008

Appendix A - Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
Financial Statements					
1	The trial balance includes long standing balances and substantial levels of payroll suspense balances, controlled by the central Scottish Government accounts team, which have not been reconciled or cleared on a timely basis.	Medium	SFPA should seek early resolution of these balances and ensure that the resolution of these does not affect the Agency's financial position.	The Agency has entered into a dialogue with the responsible Scottish Government team and action will be taken to address.	30 October 2008
2	The draft accounts submitted to audit, did not include 2007-08 statutory disclosures, including the Statement on Internal Control and the management commentary.	Low	The timetable and arrangements for producing the accounts should be reviewed to ensure that all information is available to enable the accounts to be produced in accordance with agreed timescales.	As a result of resource issues there was a concentration on providing accurate data at the detriment of the narrative. The Agency fully intends to provide a complete set of accounts in the future.	Immediate

Appendix A - Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
Governance					
3	Two compensation payments to individuals taking early retirement were not authorised in accordance with financial regulations.	Medium	SFPA should review and revise its procedures to ensure that the Scottish Government approves all payments, which are beyond delegated powers, before expenditure is incurred.	This was an oversight on the Agency's part and retrospective approval was sought to address. Steps have been taken to ensure that no reoccurrences take place.	Immediate
4	Recent staff movements have significantly reduced the finance capacity within the Agency. This has restricted the ability of the finance team to produce meaningful and timely management accounting information.	Medium	Whilst we recognise that the Agency is seeking to recruit additional staff, we recommend that this capacity gap is addressed as a matter of priority.	The Agency has experienced problems recruiting staff into vacant positions due to supply issues. Plans are in place to fill both vacancies and the team should be at complement by 1 September 2008.	1 September 2008

Appendix A - Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
Performance					
5	The Agency has prepared only 81% of reports cases for the Crown Office within six weeks of the detection of the offence against a target of 97%.	Medium	The Agency should take action to review and improve its performance in preparing reports for the Crown Office within six weeks of detection of an offence.	<p>This was a new target introduced in 2007-08 of which the change in onus was not fully appreciated at the outset by front-line staff. This coupled with a low number of cases resulted in the large variance from target.</p> <p>The performance over the most part of 2007-08 was though in line with that required and as such the Agency is well placed to meet the same target in 2008-09.</p>	Immediate
6	SFPA has not yet established a formal approach to best value and has not yet developed a systematic process for measuring and monitoring efficiency.	Medium	SFPA should formalise its approach to achieving best value and efficiency in its operations.	The Agency has embedded best value into its culture and will formalise its approach during the year.	30 October 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	<p>We are able to confirm our independence and objectivity as auditors and note the following:</p> <ul style="list-style-type: none"> • 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.

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

Ref	Area	Key Messages
B	Approach to the audit	<p>Our approach to the audit was set out in our 2007-08 audit plan. We have planned our audit in accordance with International Auditing Standards and the Code. Other key factors to highlight include:</p> <ul style="list-style-type: none"> • 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 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.
C	Accounting policies and practices	<p>Management agreed to our request for additional disclosure in respect of income recognition to reflect the receipt of compensation from the delayed acquisition of capital assets in 2007-08.</p> <p>Following this, we consider that SFPA has adopted appropriate accounting policies in the areas covered by our testing. These policies were in accordance with the Government Financial Reporting Manual (FRoM).</p> <p>The Board has considered and confirmed that SFPA remains a going concern. The Board is asked to confirm this through the Letter of Representation.</p>

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

Ref	Area	Key Messages
D	Material risks and exposures	<p>The Board has considered and confirmed that SFPA has no material risks and exposures, which should be reflected in the financial statements.</p> <p>The Board is asked to confirm this in the Letter of Representation.</p>
E	Audit adjustments and unadjusted errors	<p>We identified several disclosure amendments and reclassifications to improve the presentation of the accounts.</p> <p>These are outlined below. There were no material errors that were not adjusted in the accounts.</p>

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

Accounting Issues

Standard of accounts and supporting papers

SFPA's draft financial statements were presented for audit on 26 June 2008; however, a number of supporting disclosures had not been updated from 2006-07. These disclosures included the management commentary and the Statement on Internal Control. Following audit request, a revised set of accounts was submitted on 4 July 2008, which incorporated the updated disclosures.

Creditors Classification

The creditors analysis in the accounts, originally included £3.073m of capital creditors within the other taxation and social security balance. We agreed with management to reflect these outstanding liabilities as other creditors, in line with the substance of the underlying liabilities.

Debtors Classification

Following Scottish Government guidance, SFPA has provided £106k of housing advances to staff that relocate on Agency business, with repayment over subsequent years through staff payroll. These were originally accounted for within short-term debtors. Since recovery of these debts occurs over a period of years, we agreed with management to reflect a £100k element of these balances as long-term debtors.

Summary of adjusted audit differences

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

	Income & Expenditure account		Balance Sheet	
	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Misclassification or disclosure adjustments				
Amended disclosure of capital creditors from taxation and social security to other creditors.			3,073	3,073
Amended disclosure of housing advances from short term to long-term debtors to reflect the substance of the transactions.			100	100
Adjustments affecting reported results				
None				

There are no unadjusted differences to report.



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