

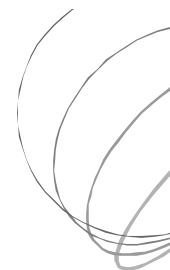
Scottish Environment Protection Agency

Report on the 2005-06 Audit

5 December 2006



Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Executive and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds



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Executive Summary

Introduction

We have audited the 2005-06 financial statements of the Scottish Environment Protection Agency and looked at aspects of governance and performance management. This report sets out our key findings.

Financial Position

We have given an unqualified opinion on the financial statements of Scottish Environment Protection Agency for 2005-06. The Agency's income and expenditure account for the year records income of £61.1 million (2004-05: £54.3m) and gross expenditure of £58.5 million (2004-05: £53.6m) resulting in an operating surplus for the year of £2.6 million (2004-05: £0.7m). After allowing for interest and the notional cost of capital, SEPA achieved a net surplus of £2.1 million (2004-05: £0.04m). The increase in the surplus for the year is due to a variety of factors including 2005-06 being the first year of the 'Water Framework Directive' charging scheme and additional 'Spend to Save' Grant in Aid income.

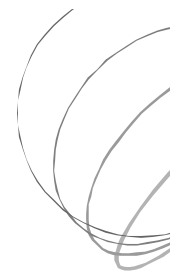
Governance

SEPA's corporate governance and control arrangements operated satisfactorily in the period under review as reflected in the Statement on Internal Control. In this report we make a number of recommendations in areas where there is some scope for improvement in the system of internal control in specific areas.

Performance Management

During 2005-06 we carried out an overview of SEPA's management arrangements in relation to the requirements of the Scottish Executive's Efficient Government Initiative. SEPA has committed itself to delivering £4.3 million in time and cash releasing savings over the three year period from 2005-06 to 2007-08. We also completed a baseline review of SEPA's management arrangements in place for achieving Best Value. We found that SEPA considered their arrangements for Best Value to be well developed and that progress towards achieving Best Value was being made.

Peter Tait CPFA, Assistant Director



Introduction

Scope of the Audit

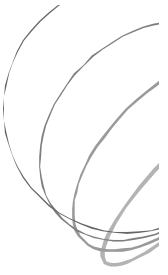
1. This report summarises the findings from our 2005-06 audit of Scottish Environment Protection Agency. The scope of the audit was set out in our Audit Risk Analysis and Plan (ARAP), which described the work we planned to carry out on financial statements, governance and performance management.

Outcome on Risks Identified in the ARAP

2. Three specific areas where significant audit risk was identified at the planning stage were detailed in the ARAP:
 - Charging Schemes
 - Pension Liabilities
 - Efficient Government (Shared Services)
3. Satisfactory audit test results were obtained in each of the above areas and the detailed outcome against planned activity is summarised at Appendix A.

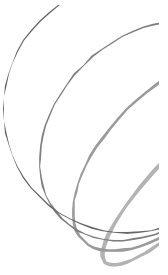
Prior Year Follow Up

4. In our report on the 2004-05 audit, we made recommendations in relation to pensions and during the 2005-06 audit, we noted that the actuarial assumptions, on which SEPA's actuarial valuation for FRS 17 purposes is predicated, are now consistent with other central government bodies.
5. As part of the 2004-05 audit, we also recommended that SEPA review the disclosures in the financial statements to ensure full compliance with applicable accounting guidance with particular reference to intangible fixed assets. Although progress has been made in reviewing accounting policies, this area was the subject of further audit review and comment as part of the 2005-06 audit and is covered in more detail later in this report.



Management Action

6. Audit recommendations, together with management comments, on those areas where further improvements could be achieved are included in the action plan at Appendix B of this report.
7. This report to management sets out our findings from the audit carried out. The matters outlined are only those which have come to our attention during the course of our normal audit work and are not necessarily all the weaknesses which may exist.
8. Although we include a number of specific recommendations in this report to strengthen internal control, it is the responsibility of management to determine the extent of the internal control system appropriate to Scottish Environment Protection Agency. We would stress, however, that an effective internal control system is an essential part of the efficient management of any organisation.
9. The contents of this report have been agreed with relevant officers to confirm factual accuracy.
10. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by SEPA staff and members of the Board during the course of our appointment. This report will be submitted to the Auditor General for Scotland and will be published on our website at www.audit-scotland.gov.uk.



Financial Statements

Our Responsibilities

11. 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, of the state of affairs of the body as at 31 March 2006 and of its excess of expenditure over income, 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 Public Finance and Accountability (Scotland) Act 2000 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.

12. We also reviewed 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 not inconsistent with the information emerging from our normal audit work.

Overall Conclusion

13. We gave an unqualified opinion on the financial statements of Scottish Environment Protection Agency for 2005-06.

Financial Performance

14. Scottish Environment Protection Agency's income and expenditure account for the year records gross expenditure of £58.549 million (2004-05: £53.610m) and income of £61.128 million (2004-05: £54.264m) resulting in an operating surplus for the year of £2.579 million (2004-05: £0.654m). After allowing for interest and the notional cost of capital, SEPA achieved a net surplus of £2.1 million (2004-05: £0.04m).



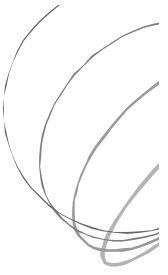
15. The significant increase in the surplus for the year is due to a variety of factors including 2005-06 being the first year of the Water Framework Directive charging scheme where income of £0.522 million was received and additional Spend to Save Grant in Aid income of £1.486 million was also received, much of which was applied directly to the repayment of PWLB debt which is reflected on the balance sheet rather than through the income and expenditure account.
16. In relation to charging schemes we note that SEPA continues to move towards full cost recovery overall. Of the five schemes where full costs have not been recovered we note that the most significant (£0.480m) under recovery was in relation to the Pollution Prevention & Control (PPC) scheme. In addition we note that Ministerial approval has been given for increase PPC charging in excess of RPI for 2006-07 and 2007-08 and we expect that this will have the effect of enabling SEPA to recover costs for this scheme in future years.
17. We recognise that SEPA faces a number of competing challenges in relation to charging schemes in terms of maintaining a robust inspection regime whilst at the same time recognising the desire of polluters to minimise charges. We also note that it is essential that management information systems and processes used in arriving at income and cost figures for charging schemes continue to operate satisfactorily. We consider this matter further in our looking forward section of this report.

Statement on Internal Control

18. We are satisfied that the Statement complies with Scottish Executive guidance, the process put in place by the Accountable Officer to obtain assurances on systems of internal control is adequate and the contents of the Statement are consistent with the information emerging from our normal audit work.

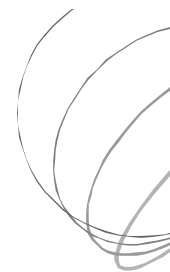
ISA 260: Communication of Audit Matters to Those Charged with Governance

19. My responsibilities in relation to the communication of audit matters to those charged with governance are covered in International Standard on Auditing 260 and outcomes against the requirements of the Standard were reported in a letter to the Accountable Officer and presented to the Audit Committee on 27 June 2006 and are reproduced on the following page:



Extract from letter to Chief Executive dated 27 June 2006:

ISA 260 Requirement:	Outcome:
The nature and scope of the audit, including any limitations, and the form of reports expected to be made	This information was outlined in the Audit Risk Analysis and Plan discussed with the Director of Finance.
Expected modifications to the audit report	I will be issuing a clear audit opinion.
Unadjusted misstatements	There are no unadjusted misstatements to which I wish to draw attention.
Material weaknesses in the accounting and internal control systems identified during the audit	The audit has not identified any material weaknesses in accounting and internal control arrangements; the Statement on Internal Control appropriately reflects circumstances
Views about the qualitative aspects of accounting practices and financial reporting	<p>The significant judgements included in the accounts relate to :</p> <p><i>Pensions accounting – FRS17</i></p> <p>The FRS17 accounting estimate in relation to pension liabilities is arrived at through independent professional actuarial valuation. This is accounted for as a provision for future liabilities in the balance sheet amounting to £7.5m million (2004-05 £14.6 million). The results of the valuation process are influenced by various actuarial assumptions. One such assumption is the discount rate used in actuarial computations. To be consistent with central government accounting the rate used is based on advice from the Government Actuary's Department. For the year to 31 March 2006, the current real discount rate used by the actuary was 2.8% in line with the Government Actuary's Department recommendation.</p> <p><i>Accounting for income from charging schemes</i></p> <p>In previous years the accounting practice by SEPA for non refundable license application fees has been to record the income as unearned. In 2005-06, SEPA have accounted for this income as earned, taking income into account when each application is made.</p> <p>I am in agreement with both of the above judgements.</p>
Matters specifically required by other auditing standards to be communicated and any other matter relevant to the audit	Nothing to report



Issues Arising

20. We would like to draw attention to the following issues arising from our audit of the financial statements:

Fixed asset note bookkeeping adjustment

21. In the financial statements note in relation to tangible fixed assets, there are disclosures relating to a bookkeeping adjustment. We considered the appropriateness of the disclosures and, on balance, concluded that a prior year adjustment was not required however, for future years we recommend that SEPA finance staff ensure that year end fixed asset balances in the fixed asset register, the general ledger and in the financial statements are reconciled and agreed.

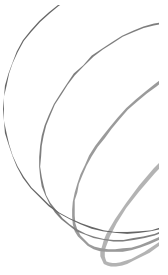
Action point 1

Charging scheme accounting policy

22. A material increase in charging scheme income (amounting to £1.1 million) arose as a result of SEPA revising the way in which income was recognised. Application receipts are now accounted for in the year in which they are received, rather than the year to which the Application relates.
23. After considering the characteristics of each charging scheme, we are content that the date when Applications are received is a reasonable basis on which to account for income in this area. Nevertheless we are concerned that such changes to cut-off procedures for financial reporting purposes are undertaken rarely in order to ensure comparability of financial reporting information year on year and to minimise the risk of such procedural changes being made in order to influence the financial results for the year.

Accounting for internally generated intangible assets

24. On accounting for intangible fixed assets, we remain concerned that SEPA's current arrangements do not comply with best practice. Although we have concluded that accounting in this area has not resulted in material accounting issues it remains an area of audit risk to us. The current practice of capitalising a variety of costs involved in IT projects, in our opinion, leaves too much scope for the exercise of judgement as to whether or not particular transactions are capital or revenue in nature.



25. Accounting standards in this area suggest that only costs that result in an intangible asset with a readily ascertainable market value should be capitalised and we are not convinced that this is the case with SEPA software development costs. We recommend that SEPA review accounting practice in this area during 2006-07 with a view to revising the accounting policy for internally generated intangible assets and to affect the necessary bookkeeping.

Action Point 2

Accounting for overdue interest

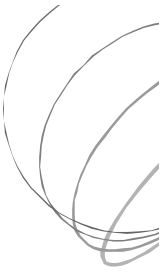
26. Income in the financial statements included £284,000 in relation to interest on overdue accounts. During 2005-06 SEPA increased the rate of interest charged on overdue debtors balances from approximately 8% to around 12.75%. Given the sensitivity of charging schemes being close to breaking even overall and the high rate of interest charged we are concerned that this income may not be fully received. We note that the bad debt provision does include an estimate of likely bad debt in respect of this income but, in our opinion, it would be prudent if this amount were greater. This would have the impact of increasing costs across SEPA, an element of which would be born by the charging schemes.

Action Point 3

Accounting for software

27. Software purchases have, on occasion, been classified as tangible fixed assets, but accounting standards in this area suggest that software licences be treated as intangible assets. We recommend that SEPA reviews accounting practice in this area and takes the necessary corrective bookkeeping action.

Action Point 4



Governance

Introduction

28. This section sets out the main findings arising from our review of Scottish Environment Protection Agency's corporate governance as it relates to:

- systems of internal control;
- our review of internal audit.

Systems of Internal Control

Aged creditor and debtor listings

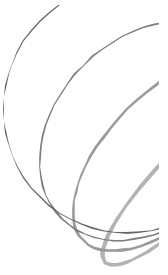
29. Although aged debtor and creditor listings were produced at the year end it was found that these could not be reconciled to the general ledger as a result of software problems. This represents weaknesses in the system of internal control regarding the completeness and accuracy of debtors/income, as well as creditors/expenditure, and we recommend that SEPA management take steps to ensure that the new finance system does not suffer from similar weaknesses.

Action Point 5

Bank reconciliations

30. During our audit of the financial statements we found that formal bank reconciliations for the National Marine Analytical Quality Control Account, (which SEPA holds on behalf of the working group) were not being carried out. The year end balance on this account was £17,000 at the year end and as such, was immaterial to the financial statements. Nevertheless, bank reconciliations represent a key internal control for the prevention and detection of fraud. For public sector bodies it is normal practice for all bank accounts to be subject to regular reconciliation and the Scottish Public Finance Manual provides extensive guidance in relation to the operation of bank accounts.

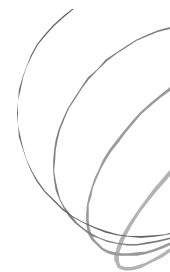
31. After discussing the above issue with SEPA's finance staff, we were informed that the account was informally reviewed on a regular basis. We were also informed that the account balance has now been transferred to another member of the group and the bank account has been closed.



Review of Internal Audit

32. Scottish Environment Protection Agency recognises internal audit is a key element of the internal control system set up by management. A strong internal audit function is necessary to ensure the continuing effectiveness of the internal control system established. Internal audit is provided by KPMG and during the 2005-06 audit, we took account of the work they undertook in determining the nature and extent of audit testing we carried out.

33. No frauds were identified by Scottish Environment Protection Agency in 2005/06.



Performance Management

Introduction

34. This section covers our assessment of the way in which Scottish Environment Protection Agency secures best value in the use of its resources. This year we considered arrangements at SEPA with respect to the Efficient Government Initiative and Best Value.

Efficient Government

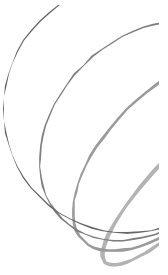
35. The Efficient Government Initiative is a five year programme with the aim of reducing waste, bureaucracy and duplication in Scotland's public sector. The primary objective is to deliver the same services with less money or to enable frontline services to deliver more or better services with the same money. The Efficient Government Plan, "*Building a Better Scotland: Securing Efficient Government – Securing Efficiency, Effectiveness and Productivity*" sets targets to achieve £745 million (rising to £900 million) of cash-releasing savings and £300 million (rising to £600 million) of time-releasing savings, by 2007-08.

36. SEPA has committed to achieving cash releasing savings of £2 million and time releasing savings of £2.3 million over the three year period from 2005-06 to 2007-08 in a variety of ways including:

- reducing expenditure on supplies and services;
- reducing resource required for carrying out certain functions;
- improved asset management;
- absorption of new duties by existing staff;
- greater efficiency from support services; and
- transaction redesign.

37. During 2006, Audit Scotland completed a management arrangements' diagnostic on Efficient Government activities across a number of central government organisations including SEPA. It was aimed at providing baseline information to ascertain the position of each organisation in relation to the Executive's efficiency agenda.

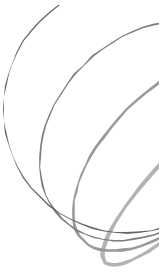
38. Overall we concluded that, at the time of our audit in May 2006, SEPA had adequate systems in place to monitor the expected savings. This system is currently being refined as the need to demonstrate efficiency savings is driving the requirement for an improved system.



39. Prior to the introduction of the Efficient Government Initiative, SEPA were already devising ways to become more efficient in their use of resources. For example, SEPA are very proactive with regard to sharing accommodation and support services. SEPA has prepared business cases setting out their requirements including options appraisal and recommendations for all shared options. SEPA is currently working with other public bodies on sharing or making use of common information systems resources, shared server resources, shared service provision and document management.
40. However, it is the 'On The Ground' Programme which is of most benefit to SEPA at the moment. On The Ground represents shared accommodation solutions for central government organisations. It is a multi-organisational programme which aims to deliver more joined-up and efficient public services across Scotland through the delivery partners of the Scottish Executive Environmental and Rural Affairs Department family of public bodies. The programme is planned to last for three years during which time the habit of joint working will be come subsumed within the onward corporate planning of the constituent bodies.
41. We are pleased to note that SEPA have made significant efforts towards achieving the programme objectives and currently share office accommodation and common support services where possible, including co-location in Perth sharing an office within an existing SEERAD building. SEPA are also investigating the possibility of sharing accommodation in the future with Scottish Natural Heritage in Aberdeen.
42. Information gathered across central government bodies from the baseline exercise is being analysed and feedback to individual bodies on emerging themes and sector comparisons will be provided in due course.

Best Value

43. There is no statutory duty of Best Value in the wider public sector in Scotland (the Scottish Executive and its Executive Agencies, Executive NDPBs, and the NHS). Instead, the Scottish Executive issued high level guidance in May 2003, followed by more detailed draft secondary guidance in August 2003. The duty of Best Value was described in the guidance as:
 - to make arrangements to secure continuous improvement in performance (while maintaining an appropriate balance between quality and cost);
 - to have regard to economy, efficiency and effectiveness, and the equal opportunity requirements; and
 - to contribute to the achievement of sustainable development.



44. In May 2005, Ministers decided that they would not bring forward legislation which extends Best Value in the wider public sector. However, as Ministers do wish to encourage and embed the principles of Best Value across the wider public sector, revised guidance was issued in May 2006.

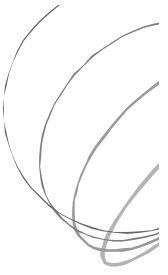
45. For 2005-06 Audit Scotland reviewed how well advanced arrangements are in place by public bodies across the central government sector to demonstrate Best Value, and to identify areas of good practice. As part of this review we completed a Best Value analysis to establish baseline information on the management arrangements in place within SEPA with regard to the nine characteristics of Best Value. The nine characteristics are:

- **Commitment and leadership**
- **Accountability**
- **Responsiveness and consultation**
- **Contribution to sustainable development**
- **Joint working**
- **Sound governance at a strategic and operational level**
- **Sound management of resources and contractual relationships**
- **Use of review and options appraisal**
- **Equal opportunities arrangements**

46. The overall aim of this analysis was to establish the organisation's arrangements for taking forward the Best Value agenda and demonstrating continuous improvement. The analysis including asking organisations, "at what stage the organisation is at in ensuring arrangements are in place for each of the nine characteristics." SEPA have responded that their arrangements are well developed for every characteristic. We note that within SEPA's corporate plan each of the six long term environmental outcomes has defined targets. The corporate plan also includes a summary of the outputs and activities that SEPA will be carrying out to deliver. The corporate plan is supported by annual directorate business plans which contain more detailed operating targets and KPIs.

47. We were also pleased to note that SEPA has a variety of arrangements in place to support Best Value. Some of the items we noted include:

- ISO accreditation and a bid for ISO 14001 certification;
- Active participation in the 'On The Ground' programme;
- Equal opportunities monitoring framework in place;



- Production of a Greening report on SEPA's environmental performance;
 - Maintenance and regular updating of the risk register and review during Audit Committee meetings;
 - Utilisation of contracts set up by other public bodies, e.g. leasing of cars using Inland Revenue contract and energy contracts through the Scottish Executive;
 - Water framework directive consultation process;
 - Memorandums of understanding in place with SEPA and a variety of organisations.
48. The results from the review across the wider public sector are currently being analysed. The outcomes from this exercise will be published in due course.

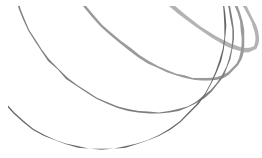


Looking Forward

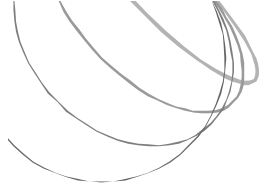
49. SEPA continue to face a number of challenges in the 2006-07 year and beyond. As mentioned earlier in this report the move towards full cost recovery in relation to charging schemes continues. The implementation of a new finance system will present opportunities to ensure that underlying management information systems such as those for debtors and creditors provide complete and accurate data.
50. In addition non-financial systems – such as the time recording system – continue to be vitally important data sources for charging scheme costing and it is essential that these operate robustly in order to ensure that cost and income allocations to each scheme are complete and accurate.
51. On the financial reporting front, new requirements from 2006-07, will be introduced affecting the way in which Scottish Executive Grant in Aid is treated in the accounts. Grant in aid will no longer be accounted for as income but will be accounted as funding and will be reflected in reserves rather than the income and expenditure account. This means that the income and expenditure account will generate a significant excess of expenditure over income and that this will be met by funding.
52. A challenge for SEPA in these changed circumstances will be to ensure readers understand that the change has impacted on the presentation of financial information rather than any fundamental change in SEPA's financial performance.

Appendix A: Outcome on Risks Identified in the ARAP

Risk	Management assurances	Planned audit action	Outcome
<p>Charging Schemes Income and expenditure</p> <p>There is a potential risk that not all income for charging schemes is recognised and accounted for in the financial statements. For expenditure all applicable costs relating to each individual charging scheme may not be fully identified for that scheme with the result that schemes may be cross subsidised.</p>	<p>In addition to the usual budget monitoring procedures, charging schemes are operated with the following features:</p> <ul style="list-style-type: none"> • Active review of in year financial position; • Assessment of grant applications against established criteria; • Procedures and policy guidance have been established and promulgated through staff training; • Compliance visits by SEPA staff; • Additional management checks on payments in excess of £50,000. 	<p>We will review the operation of charging schemes applicable for 2005-06, and carry out detailed testing as appropriate.</p>	<p>Audit testing including detailed substantive testing, substantive analytical review procedures, testing of internal controls and cut off testing were all carried out.</p> <p>On the whole satisfactory audit test results were obtained to provide evidence to reduce audit risk to an acceptable level.</p> <p>In relation to cut-off at the year end, we considered, at some length, the judgements made by SEPA management in relation to the recognition of charging scheme income. Whilst we have been able to conclude that charging income in the financial statements is not materially mis-stated, we do make a recommendation in this report regarding this matter.</p>

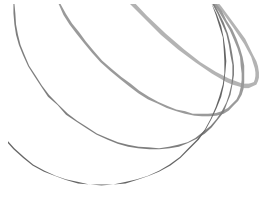


Risk	Management assurances	Planned audit action	Outcome
<p>Pension liability accounting (FRS17)</p> <p>FRS 17 accounting involves the use of judgement which can have a material bearing on the financial statements.</p>	<p>Management will instruct the pension scheme actuaries to carry out a valuation in compliance with FReM requirements concerning central government bodies.</p>	<p>Detailed audit testing of the actuarial valuation will be carried out to ensure that all relevant actuarial assumptions are in compliance with FReM.</p>	<p>Satisfactory audit test results were obtained.</p>
<p>Efficient government (shared services)</p> <p>The potential savings from shared services may not be achieved or the options proposed may have an adverse impact on SEPA operations.</p>	<p>SEPA are actively liaising with other bodies and the Scottish Executive as well as participating in a number of pilot exercises.</p>	<p>We will review and monitor developments in this area as part of our Efficient Government audit work.</p>	<p>Satisfactory audit test results were obtained in this area based on the review we carried out in this area.</p> <p>The section of this report dealing with Performance Management gives more detail on the outcome of our work in this area.</p>

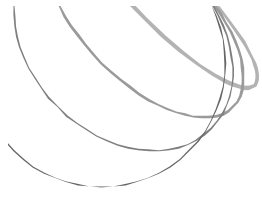


Appendix B: Action Plan (Recommendations for Further Improvements)

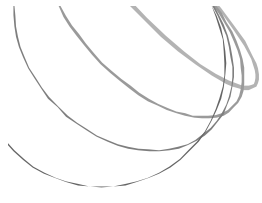
Action Point	Para. No	Issue, Risk and Audit Recommendation	Management Response	Responsible Officer	Target Date
1	21	<p>Accounting for Fixed Assets</p> <p>Underlying management information weaknesses have resulted in the need to correct financial accounting in a subsequent year. We considered the appropriateness of disclosures and, on balance, concluded that a prior year adjustment was not required however, for future years we recommend that SEPA finance staff ensure that year end fixed asset balances in the fixed asset register, the general ledger and in the financial statements agree.</p> <p>Risk</p> <p>Financial statement disclosures may not adequately reflect figures in underlying management information systems.</p> <p>Recommendation</p> <p>We recommend the all underlying management information systems be regularly agreed to SEPA prime financial records (ie the general ledger) and in particular at the financial year end.</p>	<p>Management will ensure that the figures from the RAMS (Real Asset Management System), general ledger and the annual accounts agree in future.</p>	<p>Financial Accountant</p>	<p>31 March 2007</p>



Action Point	Para. No	Issue, Risk and Audit Recommendation	Management Response	Responsible Officer	Target Date
2	25	<p>Internally generated intangible assets</p> <p>Costs associated with the production of software and databases are capitalised but, since there is no readily identifiable market value for such software / databases, these costs should not be capitalised but should be expensed.</p> <p>Risk</p> <p>There is a risk that decisions to capitalise / expense transactions are resulting in an overstatement of intangible assets and understatement of expenditure. In generic terms there is a risk that the financial results could be materially affected by judgements that are out of step with best accounting practice.</p> <p>Recommendation</p> <p>We recommend that the capitalisation of costs associated with internally produced software or databases be reviewed with a view expensing such costs in future.</p>	<p>We will review the capitalisation of software expenditure, to ensure that it reflects good practice. The impact of any resulting changes to SEPA's current accounting practice will need to be agreed by SEERAD.</p>	Finance Manager	31 March 2007



Action Point	Para. No	Issue, Risk and Audit Recommendation	Management Response	Responsible Officer	Target Date
3	26	<p>Accounting for overdue interest</p> <p>The overdue interest rate charged to debtors is high. Given the sensitivity of SEPA's financial targets in this interest charged to debtors may materially affect the financial results.</p> <p>Risk</p> <p>There is a risk that all interest charged may not be received as well as a risk that interest charges may materially affect the charging schemes financial result.</p> <p>Recommendation</p> <p>We recommend that all interest be fully provided for in the financial statements. This would represent prudent financial practice and would remove the risk of interest charges materially impacting on financial results.</p>	<p>A provision was made for an element of the interest charged on overdue accounts not being recovered, circa 10%.</p> <p>Management will review the element of bad debt provision in respect of the interest on overdue balances at the year end.</p>	Finance Manager	31 March 2007



Action Point	Para. No	Issue, Risk and Audit Recommendation	Management Response	Responsible Officer	Target Date
4	27	<p>Software Purchases</p> <p>Software purchases have, on occasion been classified as tangible fixed assets.</p> <p><i>Risk</i></p> <p>There is a risk that tangible and intangible assets values are incorrectly stated in the financial statements.</p> <p><i>Recommendation</i></p> <p>All software purchases should be accounted for as intangible fixed asset additions.</p>	Noted.	Finance Manager	31 March 2007
5	29	<p>Aged Debtors & Creditors Balances</p> <p>Aged debtor and creditor listings as at 31 March 2006 could not be reconciled to the general ledger.</p> <p><i>Risk</i></p> <p>There is a risk that creditors and debtors at the year end are incomplete or inaccurate.</p> <p><i>Recommendation</i></p> <p>We recommend that SEPA management ensure that financial system functionality includes the ability to generate aged debtor and creditor listings that can be readily reconciled to the general ledger.</p>	Agreed.	Finance Manager	31 March 2007

Appendix C: Auditor General for Scotland published reports

Auditor General for Scotland

Relocation of Scottish Executive departments, agencies and NDPBs (published 21 September 2006)

1,653 posts have been transferred from Edinburgh and a further 1,164 posts have been created outside the city. Audit Scotland found that most of the reviews arose from the creation or restructuring of organisations, or from breaks in property leases. Only two of 38 reviews were the result of potential efficiency improvements identified by the organisations in their business plans. In most cases, it was not clear whether relocation would deliver wider policy objectives.

Accounts Commission and Auditor General for Scotland

Community planning: an initial review (published 16/06/2006)

Community planning partnerships have made progress but need to do more to show how their work is improving public services. The report also says that their complex remit makes it difficult for them to achieve their aims and calls on the Executive to support community planning more effectively.

Accounts Commission and Auditor General for Scotland

No hiding place: the National Fraud Initiative in Scotland (published 17 May 2006)

Scotland's councils have worked with other public bodies to identify £15m worth of fraud and errors in a national detection exercise.

Auditor General for Scotland

Scottish Further Education Funding Council: A progress report (published 26 January 2006)

The Scottish Further and Higher Education Funding Council (Funding Council) is making progress on a number of fronts, according to a report published today by the Auditor General for Scotland.

Auditor General for Scotland

Leadership development. How Government Works (published 17 November 2005)

Scotland's public sector has good examples of investment in leadership but many individual organisations do not have clear policies and most are unable to link the spending to improvements in their performance. Public bodies need to do more to track the £5m they invest each year in leadership development and make sure it results in better managed organisations and better public services, says Audit Scotland.

Auditor General for Scotland

Scottish Executive: supporting new initiatives. How Government Works (published 10 November 2005)

Last year the Scottish Executive launched new initiatives amounting to £1.4 billion. The management of these projects is generally sound, but making changes could help to improve control of the funding and allow better assessment of whether the money is helping to achieve policy aims.



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