



Fisheries Research Services

Report on the 2008-09 Audit

23 July 2009

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1 Executive Summary

Introduction

We have audited the financial statements of Fisheries Research Services (FRS) for the year ending 31 March 2009 and examined aspects of FRS's performance and governance arrangements. FRS's functions were taken over by Marine Scotland on 1 April 2009 and this is, therefore, our last audit report on the financial statements of the Agency.

Financial Statements

We intend to give an unqualified opinion on both FRS's financial statements for 2008-09 and on the regularity of transactions undertaken during the financial year. During the year, FRS incurred net expenditure of £23 million against a net revenue budget of £27.7 million, representing a significant underspend of £4.7 million (17%).

The budget underspend primarily relates to lower than expected running costs, particularly in relation to the staff costs and supplies and services, but may also be indicative of poor budget setting arrangements.

FRS incurred capital expenditure of £1.37 million during the year against a budget of £1.30 million, representing a small overspend of £0.07 million.

FRS's draft financial statements were presented for audit on 22 June 2009. The draft accounts and supporting working were generally of a good standard, however, journals for EU income were not posted through the draft trial balance or accounts resulting in additional audit work. In addition, the management commentary for the financial statements was not received until late in the audit process.

Core financial systems

We found weaknesses in the control arrangements for the fixed assets and payroll systems. In particular, the fixed asset register has not been fully reconciled to underlying assets, and controls to ensure all fixed asset purchases are identified and recorded are not yet in place. This issue was also raised in our 2007-08 audit and, whilst management have made progress during the year, it is disappointing that it has yet to be fully resolved.

In relation to payroll, we noted that reconciliations between the ledger and the payroll system are not undertaken regularly. In addition the e-HR system operated centrally by the Scottish Government does not provide management with key information required for effective workforce management covering for example staff absence, annual leave entitlement remaining and employee numbers and location.

Our review confirms that core financial systems, other than fixed assets and payroll, are generally designed effectively.

FRS operates a project costing system module of the SEAS ledger system to provide detailed financial information for research projects and specific projects funded by the European Union. This is a business critical system, but we note that it will no longer be supported by Oracle from 2010-11, and FRS have not yet established how it will meet its project costing information requirements going forward.

Governance

We found that FRS's governance arrangements operated well and within a generally sound control environment, commensurate with the scale of FRS's operations. We note that FRS's audit committee did not fully comply with the requirements of the Scottish Public Finance Manual in the number of non-executive directors appointed and in its performance assessment framework. This matter will be addressed through the transition to Marine Scotland.

Performance

As a result of the transition to Marine Scotland, we have not undertaken an audit of FRS's best value arrangements as part of our 2008-09 audit. However, we note that FRS had not prepared a detailed assessment of performance against the nine best value criteria in the lead up to the creation of Marine Scotland. We anticipate that this matter will be addressed as part of the development of Marine Scotland's performance management arrangements in due course.

The Agency did not achieve five of its operational performance targets for the period to 31 December 2008, and information to measure performance against efficiency savings targets has not been available. The transition to Marine Scotland has impacted on FRS's performance during the year as management focus has been diverted to delivering this key policy priority. However, it is disappointing to note the performance information has not been collated for the final quarter of the financial year and this has prevented management from assessing performance against corporate plan objectives.

FRS's performance targets remain largely input focussed and do not address key objectives in relation to the outcomes and impact of the work of FRS. As the Agency moves to new arrangements under Marine Scotland, this presents an opportunity to review corporate objectives and performance management arrangements.

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 FRS.

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

We acknowledge that the transfer of FRS's functions to Marine Scotland will require that organisation to consider how best to take forward the recommendations emerging from our audit.

Acknowledgements

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

This report is part of a continuing dialogue between FRS 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 FRS'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 it.

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 FRS as at 31 March 2009 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
- information which comprises the management commentary, included with the Annual Report, is consistent with the financial statements.

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
- 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 FRS's financial statements give a true and fair view of the financial position for the year from 1 April 2008 to 31 March 2009 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.

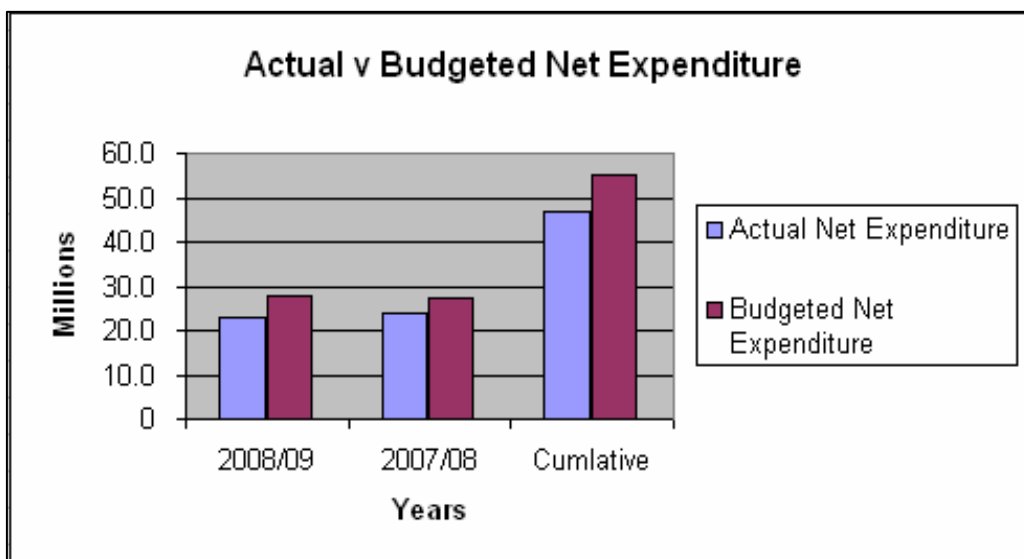
Standard of accounts and supporting papers

FRS's draft financial statements were presented for audit on 22 June 2009 in line with the agreed timetable, however the related notes were not complete and one of the key journals in relation to EU Income had not been processed through these statements. The narrative for the financial statements was not presented until 9 July 2009.

Financial Performance

FRS's Operating Cost Statement for the year records net expenditure of £23.00 million against a net revenue budget of £27.69 million representing an underspend of £4.69 million (16.9%). This continues the trend of budget underspends reported by FRS in each of the last 2 years as shown in Figure 1 below:

Figure 1



The budget underspend is primarily related to the following key factors:

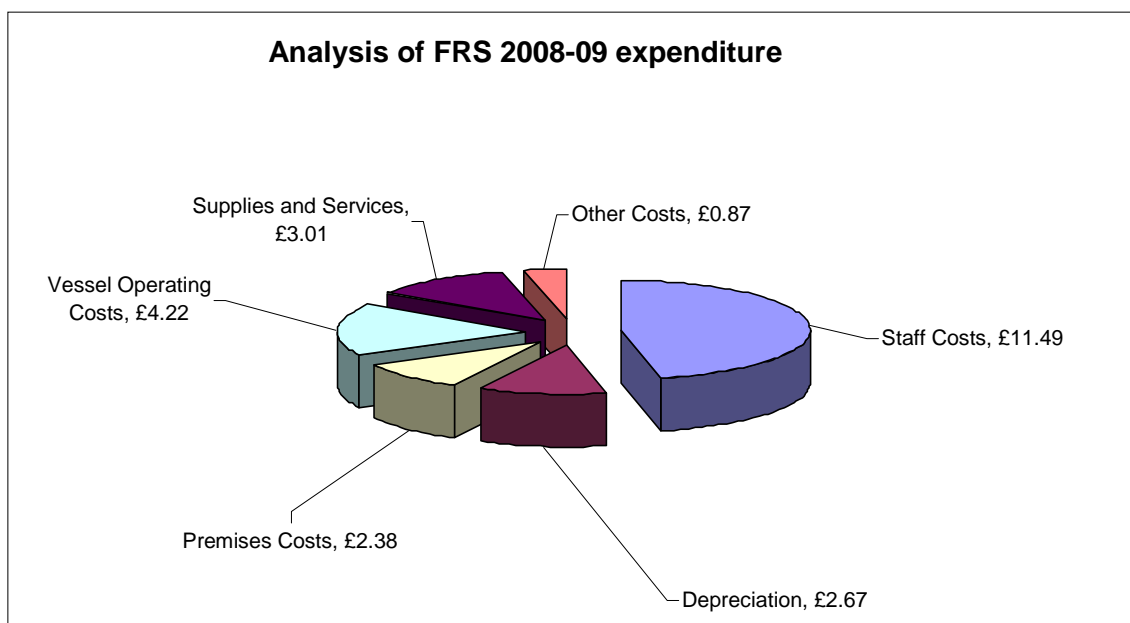
- the decision not to provide for potential non-payment of income due from the EU as recent payment history suggests non-payment will be unlikely
- over-estimate of staff costs by programme managers. In particular, over optimism that staff vacancies would be filled during the year
- over-estimate of depreciation costs and supplies and services costs. A more detailed analysis of FRS's 2008-09 expenditure is shown in Figure 2 below.

There is scope for FRS, as part of Marine Scotland, to undertake a zero-based review of its budget requirements and to incorporate more challenge into the budget setting process to ensure programme managers adopt more realistic assumptions in preparing budget submissions. In particular, we note a reluctance on the part of programme managers to return budget allocation to the central finance team for re-allocation, even where a significant underspend outcome has been identified.

Action Plan Point 1

Figure 2 below provides a more detailed analysis of FRS's gross expenditure during the year. Staff costs account for 48% of overall expenditure, vessel running costs account for 18% of expenditure with supplies and services costs (12%), depreciation charges (11%) and premises costs (11%) accounting for the remainder.

Figure 2



FRS incurred capital expenditure of £1.37 million during the year against a budget of £1.30 million, representing a small overspend of £0.07 million. In April 2008, FRS disposed of its research vessel, Clupea, for £0.10 million.

Income from EU Contracts

In 2007-08, FRS established a bad debt provision for income due under the Data Collection Regulations (DCR) contract for work performed during 2006 and 2007. This bad debt provision included a £250k adjustment for income due in relation to work performed in 2007-08, but considered unlikely to be received. During 2008-09, FRS received all income due under the DCR contract for all years and now consider that income due from EU contract work is likely to be paid in full. At 31 March 2009 there is no provision for bad debts all prior year issues have been fully resolved.

Fixed Assets

During our review of fixed assets, we noted that the fixed asset register was not being updated on a timely basis. The majority of the fixed asset additions were entered on to the register on 31 March 2009, however the actual invoices for additions were dated as far back as May 2008. As a result the depreciation charge for the additions has been understated in the year ended 31 March 2009. Based on our audit sample testing this understatement of depreciation charge is a minimum of £11k and a maximum of £103k given the spread of purchase dates for the fixed asset additions.

We further noted that disposals were entered on to the fixed asset register in the year ended 31 March 2009, however, the disposal forms were dated post year end.

Action Plan Points 2 and 3

Stock

We noted there are no documented controls over the stock. Returns are received from each cost centre however, no checks are performed on the figures to the source invoices. As a result of we could not fully trace our audit sample to the appropriate supporting documentation.

Action Plan Points 4 to 6

Revenue

During our audit we noted that the remaining balance in relation to the Scottish Fisheries Protection Agency was credited post year end due to the merger of the two agencies into Marine Scotland. An adjustment has been proposed to remove the related income and debtor balance from the 2008-09 accounts.

Refer to Appendix B

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 Government guidance, that the process put in place by the Accountable Officer (the Chief Executive) to obtain assurances on systems of internal control are adequate and that the contents of the Statement are consistent with the information emerging from our normal audit work.

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

Our responsibilities in relation to the communication of audit matters to those charged with governance are covered in the International Standard on Auditing 260. Outcomes against the requirements of the Standard are reported in Appendix B to this report. In this context, all the errors we identified were adjusted within the accounts.

3 Core Financial Systems

Introduction

Public sector bodies are required to establish and maintain proper arrangements for the governance of their affairs and the stewardship of resources at their disposal. The implementation and maintenance of sound systems of internal control are essential elements of robust corporate governance arrangements within an organisation.

As part of our interim audit, we reviewed the systems of internal control over the following core financial systems:

- Income, cash and banking
- Fixed asset management
- Payroll

We also followed up FRS's progress in implementing the agreed recommendations from our 2007-08 audit. The results of the follow up exercise are summarised in Appendix A. We have noted the following key points arising from our audit in the sections below.

Income, cash and banking

We found that the majority of controls over income, cash and banking are generally operating effectively, with the exception of bank reconciliations for the account held at the Freshwater laboratory in Pitlochry that is not being completed on a regular basis. We recommend that reconciliations are prepared and reviewed at least monthly.

Action Plan Point 7

Fixed assets

Our review of fixed assets management noted, in conjunction with the internal audit reports, that weaknesses identified as part of the verification exercise conducted in 2007-08 had not been fully addressed. In particular, the fixed asset register has not been fully reconciled to underlying assets, and controls to ensure all fixed asset purchases are identified and recorded are not yet in place. Whilst management have made progress during the year, it is disappointing that this issue has yet to be fully resolved.

We also found that additions and disposals are being entered on to the fixed asset register at a different date from the source supporting documentation which can lead to errors in calculating depreciation and indexation values.

Action Plan Point 8

Payroll

Our audit included a review of the payroll reconciliation process and confirmed that the system is appropriately designed. Monthly reconciliations between the Logica payroll system and the general ledger are performed throughout the year, however there is no management review of exceptions. We recommend a formal review process of payroll procedures should be implemented on transition to Marine Scotland.

Action Plan Point 9

Project Costing Module

FRS operates a project costing system module of the SEAS ledger system to provide detailed financial information for research projects and specific projects funded by the European Union. This is a business critical system, but we note that it will no longer be supported by Oracle from 2010-11, and FRS have not yet established how it will meet its project costing information requirements going forward.

Action Plan Point 10

4 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 2008-09 audit, we assessed the adequacy of FRS'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 FRS's overall financial position.

Key outcomes from our 2008-09 audit

We found that FRS's governance arrangements operated well and within a generally sound control environment, commensurate with the scale of FRS's operations. We note that FRS's audit committee did not fully comply with the requirements of the Scottish Public Finance Manual in the number of non-executive directors appointed and in its performance assessment framework.

FRS has, however, recently recruited a new non-executive member to its audit committee and we expect audit committee arrangements to be regularised through the transition to Marine Scotland.

Workforce management

The e-HR system operated centrally by the Scottish Government on behalf of FRS does not provide management with key information required for effective workforce management covering for example staff absence, annual leave entitlement remaining and employee numbers and location. This represents a significant weakness in workforce management arrangements.

Action Plan Point 11

Marine Scotland transition arrangements

The governance structure and programme for the transition to Marine Scotland will be implemented over the coming months, with a shadow management structure implemented in the transition phase. Our review of these arrangements showed that due consideration had been given to risk assessment and management as part of the planning process.

5 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 FRS, 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.

Best value

The Agency's functions were taken over by Marine Scotland from 1 April 2009, as a result we have not undertaken an audit of the Agency's best value arrangements as part of our 2008-09 audit. However, we note that the Agency had not prepared a detailed assessment of performance against the nine best value criteria in the lead up to the creation of Marine Scotland. We anticipate that this matter will be addressed as part of the consideration of Marine Scotland's corporate governance and performance management arrangements.

Performance Management

FRS has established 15 key performance targets covering the range of its functions. Figure two below, shows the Agency's performance against these targets for the period to end December 2008 (performance data for the final quarter of the 2008-09 financial year was not available at the date of this report):

Figure Two - Performance against Operational Targets

Indicator	Target	Actual (to Dec 08)	Target Met
Delivery of Service			
Achievement of performance targets in Service Level Agreement	95%	70%	No
Achievement of agreed milestones for research and development projects	85%	73%	No
Publication Output			
Publication/member of staff	1.3	1.0	No
produce information leaflets for:			
• stakeholders	15	24	Yes
• major articles in fishing press	12	15	Yes
• annual stock assessment information	1	1	Yes

Indicator	Target	Actual	Target Met
Quality of Service			
Implement the BBSRC/DEFRA/FSA/NERC Joint Code of Practice for Research to Agency programmes	100% of new research projects	100%	Yes
Carry out peer review on research projects on completion	100% of all projects on completion	100%	Yes
Maintain and achieve accreditation to ISO standard for specified areas of FRS work	Present 3 new methods for accreditation to ISO standard	Accreditation completed 100% (3 new methods submitted)	Yes
Establish sustainable feedback system to measure stakeholder satisfaction and carry out survey	100%	0%	No
Establish sustainable feedback system to measure customer satisfaction and carry out survey	100%	0%	No
Efficiency			
Full economic cost (FEC) to be recovered from external customers (other than those agreed to be undertaken at marginal or shared cost)	94%	94.6%	Yes
Restrict administrative staff costs as a % of total staff costs	18%	18%	Yes
Cash releasing efficiency gains (% of cost)/contribute to Efficient Government Initiative through cash and time releasing savings	5%	Not Known	Not Known
Utilise research vessels efficiently			
Contracted days at sea	96%	96%	Yes
Daily costs of <i>Scotia</i> (FEC)	£12,189	£11,913	Yes
Daily costs of <i>Alba</i> (FEC)	£4,683	£4,170	Yes

The Agency did not, therefore, achieve five of its operational performance targets for the period to 31 December 2008 and information to measure performance against efficiency savings targets has not been available. The transition to Marine Scotland has impacted on FRS's performance during the year as management focus has been diverted to delivering this key policy priority. However, it is disappointing to note the performance information has not been collated for the final quarter of the financial year and this has prevented management from assessing the performance of the Agency against corporate plan objectives.

Action plan point 12

We note that FRS's performance targets have evolved historically and reflect many of the Agency's core business objectives. However, they remain largely input focussed and do not address key objectives in relation to outcomes and impact of the work of FRS. As the Agency moves to new arrangements under Marine Scotland, this presents an opportunity to review corporate objectives and performance management arrangements.

Action plan point 13

Efficient government

We carried out an overview of FRS'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 has not yet developed a formal process for delivering best value or for measuring and monitoring efficiency. As noted above, we are unable to ascertain FRS's performance in achieving planned efficiency savings for the year.

Grant Thornton UK LLP
23 July 2009

Appendix A - Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
Financial management and budgetary control					
1	FRS has reported a £4.7 million underspend against budget in 2008-09 and a £3.3 million underspend against budget 2007-08.	Medium	FRS, as part of Marine Scotland, should undertake a zero-based review of its budget requirements and incorporate more challenge into the budget setting process to ensure programme managers adopt more realistic assumptions in preparing budget submissions.	Accepted. It should be noted Marine Scotland should also seek to reform its budget forecasting methodology to ensure prospective pressure/savings are reliably captured and used to inform ABR and SBR	December 2009 (review completed in anticipation of SBR)
Fixed assets					
2	The fixed asset register has not been fully reconciled to underlying assets, and controls to ensure all fixed asset purchases are identified and recorded are not yet in place.	High	A detailed exercise should be undertaken to ensure the fixed asset register records all assets held across the organisation. Staff should be reminded of the requirement to record all fixed asset purchases and disposals in accordance with agreed policy	Accepted It should be noted that a detailed exercise to bring the Fixed Asset Register up to date has been carried out continuously for the last 2 years by Corporate Services but responsibility and accountability for complete and accurate verification of assets should lie with budget holders who are now invited to notify Corporate Services of their inventory on a quarterly basis.	December 2009 (responsibility for asset reporting clearly assigned)

Appendix A - Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
3	Additions were entered on to the fixed asset register on 31 March 2009, however the assets were actually acquired from May 2008 onwards. As a result the depreciation charge has not been correctly calculated and is potential understated by a maximum of £103k at the year end.	Medium	Fixed asset additions should be entered on to the fixed asset register on the same date as it is uploaded onto the ledger. This should be consistent with the date on the invoice. The fixed asset register should be regularly reconciled to the general ledger.	Accepted. It should be noted that the fixed asset register was examined as part of the internal audit review in November 2008. Fixed asset reconciliations took place quarterly as scheduled by FRS throughout the year. A new version of Britannia software was installed somewhat later than the planned date in December 2008 resulting in the roll-out of training for staff being delayed until February 2009. Hence more asset movements than usual were recorded in March in addition to which the capital programme was heavily weighted towards March (70% of year's total). Accepted. Achieved throughout 2008-09	December 2009 (responsibility for maintenance of asset register clearly assigned) N/a
4	A number of fixed asset disposals processed on the fixed asset register in the year ended 31 March 2009 were supported by disposal forms dated post year end.	Medium	Fixed asset disposal should be recorded on the fixed asset register on the same date as the actual disposal and adjustment to the general ledger.	Accepted. It should be noted, in response to the fixed asset verification exercise carried out by Corporate Services, budget holders submitted asset change forms which related to the position pre-year end albeit that forms were dated post year end	

Appendix A - Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
			<p>As noted above the fixed asset register should be regularly reconciled to the general ledger.</p> <p>The Agency should review and revise its guidance to staff covering the procedures for identifying, recording and disposing of assets in the fixed asset register.</p>	<p>and where therefore posted as such.</p> <p>It should be noted for this quarterly reconciliation there was 100% compliance in 2008-09.</p> <p>Accepted.</p>	
Stock					
5	There are no documented controls over stock. Returns are received from each cost centre however, no checks are performed on the figures to source invoices.	High	The Agency should document procedures for managing and controlling stock. Checks to ensure stock returns agree to the financial ledger should be established.	This recommendation will require additional staff resources and/or a software solution and will be considered as part of the new Marine Scotland internal controls review.	December 2009
6	There is a limited audit trail between the stock listing and the cost source documentation. As a result appropriate invoices could not be obtained for four of the ten stock items requested to complete	Medium	<p>A central register of stock. should be established to increase knowledge within the finance department of stock values.</p> <p>The finance team should review stock procedures to ensure an adequate audit</p>	This recommendation will require additional staff resources and/or a software solution and will be considered as part of the new Marine Scotland internal controls review	December 2009

Appendix A - Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
	our audit sample testing.		trail is available to trace stock items.		
7	A number of items were included on the stock listing at 17.5% VAT, however on review of invoices this should have been amended to the revised rate of 15%.	Medium	Management should ensure the correct VAT rate is applied to all stock items	This recommendation will require additional staff resources and/or a software solution and will be considered as part of the new Marine Scotland internal controls review	December 2009
Income, cash and banking					
8	The reconciliations for the bank accounts held at Pitlochry are completed on a monthly basis.	Medium	All bank reconciliations should be prepared and reviewed on a monthly basis.	Not accepted. Reconciliations are currently performed by staff in Pitlochry and reviewed by staff in Aberdeen and provide an adequate segregation of duties.	
Payroll					
9	Monthly reconciliations between the payroll system and the general ledger are not completed on a timely basis, and no follow up of variances from expectation is completed.	High	Monthly reconciliations should be prepared and reviewed by management, including full investigation of significant variances. A formal review of payroll reconciliation procedures should be completed on	Accepted. However, without e-HR staff movement reports FRS is not in a position to reconcile payroll outturn. FRS does carry out a check to ensure that the cumulative values in SEAS agree to the cumulative payroll that is made available from the centre.	Dependency on obtaining co-operation from HR shared services. Provisionally December 2009

Appendix A - Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
			transition to Marine Scotland.	Accepted.	December 2009.
Project costing					
10	FRS have not yet established how it will meet its project costing information requirements going forward.	High	FRS should put plans in place to ensure it retains project costing functionality in the event its exiting project costing system is no longer available.	It is incorrect to report that the project costing system will no longer be available or that plans have not been made to address its project costing information requirements going forward (Page 3 Core Financial Systems). Oracle have no plans to de-support project accounting. However a draft business case has been prepared to move to the most recent version of project accounting software and time has been identified in the SEAS operational plan for preparatory work to commence in the current financial year.	N/a

Appendix A - Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
Workforce management					
11	The e-HR system operated centrally by the Scottish Government on behalf of FRS does not provide management with key information required for effective workforce management.	High	Management should identify key management information requirements for effective workforce management and work with the Scottish Government to ensure the e-HR system is developed to provide the data required.	Accepted.	Dependency on obtaining co-operation from HR shared services. Provisionally December 2009.
Performance management					
12	Performance information has not been collated for the final quarter of the financial year and this has prevented management from assessing the performance of the Agency against corporate plan objectives.	Medium	FRS should ensure performance management arrangements are given sufficient priority and should address identified areas of underperformance.	Accepted	August 2009
13	FRS's performance targets remain largely input focussed and do not address key objectives in relation to outcomes and impact of the work of FRS.	Medium	Management should review performance management arrangements as part of the transition to Marine Scotland. In particular, performance measures should address the outcomes and impact of existing operations.	Accepted	December 2009

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 within our action plan at Appendix A.

Summary of adjusted audit differences

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

	Operating Cost Statement		Balance Sheet	
	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Adjustments affecting reported results				
Fixed Assets: Equipment - Disposals			6	
Fixed Assets: Equipment - Additions				6
Fixed Assets: Equipment - Depreciation on Disposals			3	
Fixed Assets: Equipment - Depreciation Provided in Year				3
Fixed Assets: ICT Systems - Depreciation on Disposals			18	

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

	Operating Cost Statement		Balance Sheet	
	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Fixed Assets: ICT Systems - Additions				14
Fixed Assets: ICT Systems - Disposals				3
Fixed Assets: ICT Systems - Depreciation Provided in Year				1
Fixed Assets: Vessels - Additions			56	
Fixed Assets: Motor Vehicles - Additions				56
Fixed Assets: Motor Vehicles - Disposals			23	
Fixed Assets: Vessels - Disposals			88	
Fixed Assets: Vessels - Depreciation Provided in Year			125	
Fixed Assets: Motor Vehicles - Depreciation on Disposals				15
Fixed Assets: Vessels - Revaluations				108
Fixed Assets: Vessels - Depreciation on Disposal				108
Fixed Assets: Vessels - Depreciation of Revaluation				5
Depreciation Charge for the Year	4			
Fixed Assets: Motor Vehicles - Depreciation Provided in Year				4
Being reallocation of fixed asset disclosure to agree with fixed asset register				
Fixed Assets: Assets Under Construction - Additions			10	
Other Operating Costs		10		
Being correction of amounts capitalised in the year				
Indirect EU Income	1,828			
Commercial Contract Income	2			
Accrued Income				2
EU Contract Debtors				1,592
Deferred Income				231
Exchange Rate Differences				5
Being reversal of original client journal				
EU Contract Debtors			1,609	

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

	Operating Cost Statement		Balance Sheet	
	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Deferred Income			227	
Commercial Income	96			
Exchange Rate Differences	4			
Indirect EU Income		1,840		
Accrued Income				86
FSA Income		10		
Being revised client journal				

Summary of unadjusted audit differences

There are no unadjusted differences to report.



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