

Scottish Environment Protection Agency

Report on the 2008/09 Audit

August 2009



 AUDIT SCOTLAND



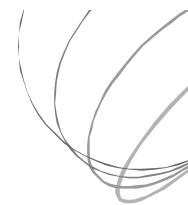
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Key messages

In 2008/09 we looked at the key strategic and financial risks being faced by the Scottish Environment Protection Agency (SEPA). We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

Financial statements

We have given an unqualified opinion on the financial statements of SEPA for 2008/09. We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers.

Use of resources

Within the 2008/09 accounts SEPA reported an excess of income over expenditure of £3.408 million in 2008/09. This is the difference between the net expenditure or deficit for the year of £38.188 million and the funding received from the Scottish Government of £41.596 million.

SEPA operated within the budget limits set by the Scottish Government.

Scottish Ministers have agreed a resource budget for SEPA of £80.828 million for 2009/10. This comprises operating expenditure of £75.121 million and capital expenditure of £5.707 million.

SEPA's 2009/10 budget, which was agreed by the Agency Board in April 2009, incorporates £830,000 of efficiency savings which exceeds the 2% target set by the Scottish Government (£710,000). The 2009/10 budget also required the identification of further savings of £1 million to enable SEPA to operate within its revenue resources. SEPA has identified the £1 million savings required, which are linked to the change programme outlined within the Annual Operating Plan 2009 – 2010. The achievement of these and future savings or efficiencies represents a significant challenge and risk for SEPA.

Governance and Accountability

Overall the corporate governance arrangements for SEPA operated satisfactorily during the year, as reflected in the Statement on Internal Control.

We examined the key financial systems which underpin the organisation's control environment. We concluded that we were able to place reliance on them.



Performance

During the year SEPA put in place a 10 point plan to assist Scotland's economy, with Scottish Government support. This involved the waiver of fees from 25th November 2008 to 31 March 2009 on a number of charging schemes and resulted in a reduction in income of £1.54 million.

SEPA published its Corporate Plan 2008 – 2011 in August 2008. In April 2009 SEPA published the Annual Operating Plan 2009 – 2010 that sets out how the aspirations within the Corporate Plan 2008 – 2011 will be delivered through a radical change programme. Each of the change programmes include an overall vision, the key areas of work that need to be implemented during the financial year and the measurements that will be used to monitor progress and demonstrate success.

For 2008/09 SEPA has met 12 out of 16 operational targets, including exceeding the Scottish Government's efficiency targets, responding to environmental incidents within 24 hours (achieving 98% against a target of 95%) and the launch of SEPA's customer focus strategy and establishment of customer satisfaction measures by 31 March 2009. Two of the targets not achieved relate to compliance with licence conditions, where SEPA relies on site operators to operate within the conditions of their licences. The majority of failing sites were waste management landfill sites, which now have to meet broader and tighter controls under the Pollution Prevention Control scheme. SEPA also failed to achieve the target of ensuring that 90% of cases are presented to the procurator fiscals office within 6 months of the incident because of a number of complex cases, excluding these SEPA would have achieved 96%.

Looking forward

The final part of our report notes some key risk areas and issues for SEPA going forward. SEPA faces significant financial pressures and we will continue to monitor SEPA's financial position and the plans for efficiencies and savings to achieve financial balance. We also highlight a number of national issues which affect all public sector bodies, including the National Performance Framework and the introduction of Scotland Performs and the impact of international financial reporting standards. .

The assistance and co-operation given to us by Board members and staff during our audit is gratefully acknowledged.

Audit Scotland
August 2009



Introduction

1. This report summarises the findings from our 2008/09 audit of Scottish Environment Protection Agency (SEPA). The scope of the audit was set out in our Annual Audit Plan, which was presented to the Audit Committee on 16 December 2008. This plan set out our views on the key business risks facing the organisation and described the work we planned to carry out on financial statements, performance and governance.
2. We have issued four reports this year, and we briefly touch on the key issues raised in this report. Each report sets out our detailed findings and recommendations and SEPA's agreed response.
3. Best value duties apply across the public sector and, in central government, best value is a formal duty on all accountable officers. Audit Scotland has adopted a generic framework for the audit of best value across the public sector and throughout this report we comment on aspects of SEPA's arrangements.

Exhibit 1: Framework for a best value audit of a public body





4. Our comments are made on the basis of information made available in the course of the annual audit. We do not make an overall best value judgement because we do not have enough evidence to conclude on all relevant areas. Our intention is to build up the corporate assessment over time. This report is the first step towards that goal.
5. Another building block for our assessment of best value is the national study programme carried out by Audit Scotland on behalf of both the Auditor General for Scotland and the Accounts Commission. We mention the key findings from relevant reports, and the implications for SEPA, throughout this report. Full copies of the study reports can be obtained from Audit Scotland's website, www.audit-scotland.gov.uk.
6. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by management and members of SEPA during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website.



Financial Statements

7. In this section we summarise key outcomes from our audit of SEPA's financial statements for 2008/09 and the accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available to it and its financial performance in the use of those resources.

Our responsibilities

8. We audit the financial statements and give an opinion on:
- whether they give a true and fair view of the financial position of SEPA and its expenditure and income for the period in question;
 - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
 - the consistency of the information which comprises the Directors Report, Statutory Background, Principal Activities, Financial Performance, Capital Investments in Year, Gifts and Charitable Donations, Losses, Special Payments and Write Offs, Supplier Payments Policy, European Monetary Union, Auditors and Professional Advisors within the financial statements;
 - the regularity of the expenditure and receipts.
9. We also review the statement on internal control by:
- considering the adequacy of the process put in place by the Chief Executive as Accountable Officer to obtain assurances on systems of internal control;
 - assessing whether disclosures in the statement are consistent with our knowledge of SEPA.

Overall conclusion

10. We have given an unqualified opinion on the financial statements of SEPA for 2008/09.
11. As agreed the unaudited accounts were provided to us on 18 May 2009, supported by a comprehensive working paper package. We concluded our audit within the agreed timetable and provided our opinion to the Audit Committee on 30 June 2009 as timetabled.

Issues arising from the audit

12. As required by auditing standards we reported to the Audit Committee on 30 June 2009. There were no issues that required to be brought to the attention of the Audit Committee.



Regularity

13. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.

International financial reporting standards (IFRS)

14. As announced by the Chancellor in the 2008 Budget report on 12 March 2008 (Budget report paragraph C103), Government departments and other public sector bodies will report using International Financial Reporting Standards (IFRS) from 2009/10. The Scottish Government announced on 25 April 2008 that all Scottish Government Departments, Executive Agencies, Health Bodies and Non-Departmental Public Bodies would be required to produce shadow IFRS based accounts for financial year 2008/09. This was to include a restated balance sheet as at 1 April 2008.
15. In terms of the audit of the IFRS opening balance sheet at 1 April 2008, there were two key dates to achieve as outlined below:
 - **28 November 2008** – opening 2008 IFRS-based balance sheet was to be presented to auditors for dry-run audit
 - **28 February 2009** – dry-run audit of opening balances was to be completed, resulting in a letter to management highlighting the work done, auditors' findings and areas for further work.
16. The opening balance sheet and supporting documentation were submitted by SEPA for audit to review by the deadline date of 28 November 2008.
17. We made some recommendations for the delivery of the next stage of IFRS reporting – the production of the shadow accounts for 2008/09, and will consider progress on these when we review the shadow accounts later in 2009. These included:
 - **Componentisation** – A further exercise is to be undertaken to ensure that full consideration is given to the identification and separate accounting treatment for significant individual items classified within property, plant and equipment.
 - **Gauging stations** – SEPA are to obtain valuation information for the gauging stations inherited from predecessor bodies and establish the appropriate accounting treatment.
 - **Intangible assets** – SEPA has agreed to review all de-recognised intangible assets in accordance with the changes in guidance issued.



Use of Resources

18. Sound management and use of resources (people, money and assets) to deliver strategic objectives is a key feature of best value. This section sets out our main findings from a review of SEPA's
- financial position
 - management and use of information and communications technology (ICT)
 - response to recommendations arising from Audit Scotland's national studies.

Financial Position

Outturn 2008/09

19. SEPA is required to work within its resource budget set by the Scottish Government. SEPA is expected to ensure that, taking one year with another, income from Grant in Aid and charging schemes, equals expenditure. For 2008/09 SEPA had an excess of income over expenditure of £3.408 million. This is the difference between the deficit for the year of £38.188 million and the funding received from the Scottish Government of £41.596 million.
20. SEPA's balance sheet at 31 March 2009 shows net assets of £5.326 million (2007/08 net assets of £14.955 million). The movement is mainly caused by the increase in the deficit on the pension liability, of £11.441 million, due to current market conditions.
21. SEPA started construction of a new build shared office accommodation in Aberdeen – Inverdee House - to accommodate SEPA staff and laboratories, Scottish Natural Heritage, Aberdeen based staff and the Joint Nature Conservation Committee. During 2008/09 SEPA incurred expenditure of £3.697 million with an additional £7.979 million committed to the completion of the project. The building will come into use in 2009/10.
22. SEPA operated within the budget limits set by the Scottish Government – see exhibit 2 below.

Exhibit 2 – Performance against resource budget 2008/09 (£ million)

Limits	Budget	Actual Outturn	Difference
Capital Expenditure	10.202	5.702	(4.500)
Operating Expenditure	35.894	36.252	0.358
Non Cash Expenditure	2.151	2.181	0.030
Total	48.247	44.135	(4.112)

23. As part of the financial arrangements in place to manage the new-build office project in Aberdeen the Scottish Government approved that the capital budget not utilised for Inverdee House in 2008/09 will be transferred to 2009/10.



Financial sustainability and the 2009/10 budget

24. Scottish Ministers have agreed a resource budget for SEPA of £80.828 million for 2009/10. This comprises operating expenditure of £75.121 million and capital expenditure of £5.707 million.
25. This is to be funded as follows:

Exhibit 3 – 2009/10 Resource Plan

Limits	Budget
	£million
Grant in Aid	45.418
Charging Schemes	34.376
Other Income	1.034
Total	80.828

26. SEPA's 2009/10 budget, which was agreed by the Agency Board in April 2009, incorporates £830,000 of efficiency savings which exceeds the 2% target set by the Scottish Government (£710,000). The 2009/10 budget also required the identification of further savings of £1 million to enable SEPA to operate within its revenue resources. SEPA has identified the £1 million savings required, which are linked to the change programme outlined within the Annual Operating Plan 2009 – 2010. The achievement of these financial savings and future savings or efficiencies represents a significant challenge and risk for SEPA.

Management and use of ICT

27. As part of the 2008/09 audit we examined the progress made by SEPA in addressing the risks identified from the Computer Services Review in 2006/07. The review identified 3 risks and 8 observations, which if action is not taken could become risks for the organisation.
28. SEPA has made good progress to address the key risks and observations identified in the 2006/07 review, including:
- documenting and improving the IS Strategy
 - updating operational procedures in the business QPulse system.
29. Further progress is required in relation to:
- the implementation of information security policies and procedures in accordance with Government standards
 - the organisational business continuity planning and testing.



National Studies

30. Audit Scotland published three national studies relevant to SEPA's use of resources. These were use of consultancy services, improving energy efficiency and improving public sector purchasing.

Use of consultancy services

31. The overall aim of the study was to review central government's use of consultancy services and to make recommendations to improve the public sector's use of consultants' knowledge, skills and resources to help deliver new services and initiatives quickly and expertly. The key findings included:
- The public sector is strengthening the way it buys goods and services and in most cases central government buys consultancy services well, but some improvements can be made.
 - There is not always a clear strategy for the use of consultants or for linking use to the body's priorities or financial and workforce plans.
 - Improvements could be achieved by introducing consistent and formal evaluation of consultants' work.
 - Central government could make savings of up to £13 million a year through better planning and buying of consultancy services.
32. The report made specific recommendations for public bodies including:
- having clear processes for approving, recording and monitoring the use of consultants
 - planning the use of consultancy services to ensure that consultants are used where their knowledge and skills bring greatest value for money
 - using the most economical competition routes by using framework agreements, restricted competitions and closed tendering approaches when appropriate
 - evaluating the work of consultants more systematically and sharing findings from these reviews
 - working closely with consultants to increase assurance on quality and make use of opportunities to learn from consultants and ensure knowledge transfer, where appropriate.
33. SEPA reviewed its use of consultancy services following the receipt of this report and concluded that the procurement processes and procedures in place were sufficient to ensure that the use of consultants is appropriate in providing value for money.

Improving energy efficiency

34. Audit Scotland assessed how councils, NHS bodies and central government bodies were improving energy efficiency in relation to buildings and transport use. This included examination of a range of issues including whether public bodies demonstrate commitment to improving energy efficiency; how



public bodies are performing against their objectives and targets for improving energy efficiency; and if public bodies are delivering continuous improvement in this area. The report noted the following:

- Funding has been made available by the Scottish Government and other public bodies to improve energy efficiency. While energy consumption in buildings has fallen, spending on energy increased in the three years to 2006/07.
- There is a need for stronger leadership by the Scottish Government and within public bodies to improve energy efficiency and achieve the necessary cultural and behavioural changes.
- A robust strategy is central to the coordination of activities to improve energy efficiency, however, there are inconsistencies in the quality of strategies being implemented.
- There is a lack of formal monitoring and reporting of progress in improving energy efficiency by public bodies and the Scottish Government.

35. SEPA has a Greening SEPA strategy and is working to reduce its impact on the environment, both in terms of travel, its use of energy across the estate and its use of sustainable materials. SEPA has invested in building management systems and is working with staff to reduce its carbon footprint in terms of energy usage and CO2 emissions. Regular reports are submitted to management on SEPA's performance on its environmental impact.

Improving public sector purchasing

36. Audit Scotland assessed the impact of the Public Procurement Reform Programme (the Programme) which aimed at improving purchasing practice and making savings of about three per cent a year. This included examination of the savings from the Programme and the wider benefits of the Programme. The report noted the following:

- The Programme which is ambitious and challenging has made significant progress but some changes are taking longer than planned to implement and performance measures are largely incomplete
- Around £327 million has been saved in the first two years of the Programme which is in line with the Programme target however some savings have been delayed and because of limited data it is unclear how progress towards the third year target of £400 million will be monitored
- Overall the impact of the Programme appears positive however the scale of improvement is difficult to quantify and there are variable levels of engagement by public bodies
- Key risks to the Programme include maintaining momentum, programme management, availability of information and shortages of skilled staff. These need to be addressed to help accelerate the Programme.



Governance and Accountability

37. High standards of governance and accountability, with effective structures and processes to govern decision-making and balanced reporting of performance to the public, are fundamental features of best value. This section sets out our findings arising from a review of SEPA's arrangements.
38. Increasingly services are being delivered across the public sector through partnership working, sometimes involving complex governance and accountability arrangements. Best value characteristics also include effective partnership working to deliver sustained improvements in outcomes.

Overview of arrangements

39. This year we reviewed:
- partnership working
 - key systems of internal control
 - internal audit
 - arrangements for the prevention and detection of fraud and irregularity, including standards of conduct.
40. Our overall conclusion is that arrangements within SEPA are sound and have operated throughout 2008/09.

Partnership working

41. In June 2007 Ministers challenged the organisations delivering the rural affairs and environment portfolio to create a single environment and rural delivery service (SEARS). SEARS brings together nine delivery-focused bodies within the Environment and Rural Affairs sector to provide more joined-up services, initially to rural land managers. SEPA is one of these bodies.
42. SEARS is a partnership approach and it is therefore vital that the SEARS partners have a clear understanding of their responsibilities, with clear lines of accountability. To ensure this a memorandum of agreement, setting out the framework for the partnership, was agreed by the SEARS Programme Board in March 2008.



43. SEARS is a commitment to working in a joined-up way. The Annual Review 2008/09 notes that during the first year since the partnership was launched it has:
- carried out 2,000 fewer inspections or visits to land managers ahead of the October 2009 target
 - saved the sheep farming industry around £150,000 annually in groundwater license charges through SEPA reducing the annual charge from 2008/09
 - introduced a 24/7 contact centre and established the SEARS web portal
 - given land managers the opportunity to change their personal information with the nine bodies within the Environment and Rural Affairs sector through single contact, thereby reducing duplication
 - improved the co-ordination of communication between the SEARS partners
 - co-located SNH, SGRPID and FCS, along with staff from Highlands & Islands Enterprise and Community Energy Scotland in new office in Golspie.
44. As noted previously in this report it is under the On the Ground Initiative which preceded the SEARS Initiative that SEPA started construction of a new build shared office accommodation in Aberdeen – Inverdee House to accommodate SEPA staff and laboratories, Scottish Natural Heritage, Aberdeen based staff and the Joint Nature Conservation Committee.

Systems of internal control

45. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In their annual report for 2008/09 KPMG, the internal auditors, provided their opinion that based on the internal audit work undertaken during the year, they are of the opinion that SEPA's systems provide a reasonable basis for maintaining control and that the control framework provides reasonable assurance regarding the effective and efficient achievement of SEPA's objectives.
46. As part of our audit we reviewed the high level controls in a number of SEPA's systems that impact on the financial statements. This audit work covered a number of areas including payroll, accounts payable and income from charging schemes. Our overall conclusion was that key controls were operating effectively and that SEPA has adequate systems of internal control in place. We did identify a small number of areas where controls could be strengthened and agreed an action plan of improvements with management. This will be followed up in 2009 to confirm that improvement actions have been made.



Statement on Internal Control

47. The Statement on Internal Control provided by SEPA's Accountable Officer reflected the main findings from both external and internal audit work. This recorded management's responsibility for maintaining a sound system of internal control and set out SEPA's approach to this.

Internal Audit

48. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2008/09 audit we assessed whether we could place reliance on SEPA's internal audit function. We concluded that KPMG operates in accordance with the Government Internal Audit Manual and therefore placed reliance on their work in number of areas during 2008/09, as we anticipated in our annual audit plan. This included reliance on aspects of internal audit's systems work to avoid duplication of effort.

Prevention and detection of fraud and irregularities

49. SEPA has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption, including policies and codes of conduct for staff and Board members.
50. During 2008/09 SEPA incurred charges of £354 on a lost mobile phone card prior to the card being cancelled. Internal audit completed a review in response to this and found that there was no evidence to suggest that there was any fraudulent misuse by SEPA staff.

National Studies

51. Audit Scotland published one national study, a review of major capital projects, which is relevant to SEPA.

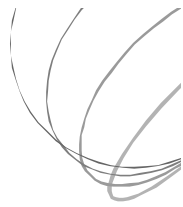
Major capital projects

52. This report was the first systematic review of major capital projects in Scotland. It considered the progress of all 43 projects completed in the five years between April 2002 and March 2007, and a sample of current major projects. It looked at progress against cost and time estimates, quality specifications and project management in general. The main findings from the report were as follows:
- The achievement of cost and time targets improved significantly as projects progressed
 - Early cost and time estimates at project approval stage were too optimistic
 - Performance against cost and time estimates is better after contracts are awarded, as plans are more certain and risks clearer



- Most completed projects have successfully delivered the required roads, hospitals and other assets, and all current projects are forecast to do so. However, few projects have been evaluated to demonstrate that they have delivered the expected wider benefits which originally justified the investment
- Nine current projects examined had awarded the main construction contract, which should increase cost certainty. However, four projects had significant increases in estimated cost before reaching this stage
- Project management and governance arrangements within individual projects are broadly effective, although room for improvement remains. A more strategic approach to managing the programme of capital projects could improve value for money.

53. As noted previously in this report SEPA has commenced the construction of a new build shared office accommodation in Aberdeen – Inverdee House. During 2008/09 SEPA incurred expenditure of £3.697 million with an additional £7.979 million committed to the completion of the project. Due to the size of this capital project it is important that SEPA consider the findings of this study and take appropriate action.

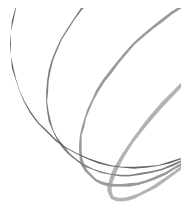


Performance

54. 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. Key features of best value include:
- setting a clear vision of what the organisation wants to achieve, backed up by plans and strategies to secure improvement, with resources aligned to support their delivery;
 - a performance management culture which is embedded throughout the organisation and a performance management framework which is comprehensive and supports the delivery of improved outcomes.
55. In this section we comment on:
- SEPA's corporate plan
 - performance against targets
 - performance management arrangements
 - risk management arrangements
 - SEPA's efficiency programme.

Vision and strategic direction

56. SEPA published its Corporate Plan 2008 – 2011 in August 2008. The plan focuses on seven key areas:
- An efficient, effective and enabling SEPA
 - Limiting and adapting to climate change
 - Protected human health and communities
 - Reduced waste and promoting sustainable use of resources
 - Improved air quality
 - Improved land quality with healthier soils
 - Improved water environments.
57. Within each area SEPA has set proposed key actions along with timescales for delivery. In April 2009 SEPA published the Annual Operating Plan 2009 – 2010 to set out how the aspirations within the Corporate Plan 2008 – 2011 will be delivered through a radical change programme. It also highlights the impact that the current economic climate has had in SEPA's achievement of the key actions.



58. The Annual Operating Plan 2009 – 2010 details the radical change programme that will occur within SEPA over the next few years. The change programme has been driven by a number of factors including the current economic climate, changes in public sector priorities and funding, improved partnership working and the need to make regulations simpler and more effective. The change model is being applied to allow SEPA to adjust its working practices and re-engineer the organisation. The following change programmes are being developed by SEPA:

- Better regulation
- Step change in service delivery – science
- Organisational development
- Customer focus
- Climate change
- Improving flood resilience
- Scotland's environmental and rural services
- Planning reform
- Local engagement
- Supporting enterprise
- Environmental and clean technology sector development.

59. Each of the change programmes are detailed within the Annual Operating Plan 2009 – 2010 including the overall vision for the programme, the key areas of work that need to be implemented during the financial year and the measurements that will be used to monitor progress and demonstrate success.

Performance overview

60. During the year SEPA put in place a 10 point plan to assist Scotland's economy, with Scottish Government support. This involved the waiver of fees from 25th November 2008 to 31 March 2009 on a number of charging schemes and resulted in a reduction in income of £1.54 million.

61. For 2008/09 SEPA has met 12 out of 16 operational targets, including exceeding the Scottish Government's efficiency target and delivering corporate objectives within budget. In 2008/09 SEPA launched a Customer Focus Strategy and developed baseline customer satisfaction measures to deliver their customer focus programme. SEPA also responded to 98% of environmental incidents and pollution reports within 24 hours, exceeding the target of 95%.



62. Two of the targets not achieved relate to compliance with licence conditions, where SEPA relies on site operators to operate within the conditions of their licences. The majority of failing sites were waste management landfill sites, which now have to meet broader and tighter controls under the Pollution Prevention Control scheme. SEPA is proactively working with the waste industry and the individual sites to ensure future compliance.
63. SEPA's target to ensure that 90% of cases are presented to the procurator fiscals office within 6 months of the incident was failed because of a number of complex cases which arose in the year. If these complex cases were excluded SEPA would have achieved 96% of cases.
64. SEPA aims to achieve at least 97% cost recovery across charging schemes each year. The 2008/9 financial statements show that charging schemes achieved 92% cost recovery due to the impact of SEPA's 10 point plan which included waiving fees from 25th November 2008 to 31 March 2009 for a number of charging schemes. If an adjustment was made for the income lost as a consequence of the 10 point plan SEPA would have achieved the target of 97% cost recovery. Charging scheme income was lower than anticipated for subsistence income in the Water Environment and Water Services scheme: and in the Pollution Prevention and Control scheme due to changes in the charging base. Within the Radioactive Substances Act scheme the level of chargeable work was lower than planned due to two incidents, which required SEPA to divert staff from chargeable work.

Performance management

65. The Agency Board reviews SEPA's performance against the Corporate Plan 2008 - 2011 through quarterly performance reports. The reports are discussed in Board meetings and continuous development is taking place to improve the format of the report. Targets on red status are followed up and action taken and reported to resolve any issues.
66. SEPA completed a baseline review of best value in 2005/06. Since that time best value reviews were completed on finance and communications resulting in a restructuring of the services and the identification of efficiencies.
67. SEPA set itself a target to conduct a SEPA wide best value review. Although the organisation-wide Best Value Review was not undertaken in 2008/09, the principles of Best Value are reflected in SEPA's Annual Operating Plan for 2009/10. In addition, during 2008/09, SEPA reviewed the organisation and identified a suite of major change programmes which will be implemented over 2009 – 2011. This is planned to deliver the organisational overview required by Best Value.



Risk management

68. SEPA has sound risk management arrangements in place including the establishment and maintenance of a corporate risk register with annual reporting to the Audit Committee.
69. Some of the main risk areas identified in the 2008/09 annual review include:
- **SEPA's Efficiency & Effectiveness Programme** – Initial indications are that funding will be severely restricted resulting in a risk that SEPA will be unable to deliver central government policy and meet stakeholder needs and expectations. To mitigate this risk SEPA has prepared an efficiency plan to identify and release efficiency savings and has developed a change programme, aligned to the Annual Operating Plan 2009 – 2010, to implement the required changes in a structured manner
 - **Succession Planning** – Failure to undertake succession planning increases the risk that key skills will be lost affecting service delivery. SEPA have completed a pilot exercise within one of the directorates to establish an appropriate way forward and the findings from the pilot are currently being considered
 - **IS Security & Data Handling** – SEPA's data protection systems and management processes do not meet the UK Government's requirements for holding classified material. SEPA are progressing with interim security measures and they have received approval to continue to hold the sensitive data while progress is being made to achieve the required standard. A security policy and hierarchy has been developed for implementation
 - **Charging Scheme Data – Lack of accuracy in CLAS data for raising charges** – The data held within the CLAS system determines the charging scheme income streams and there is a financial and reputation risk to this data being inaccurate. SEPA have established a data cleansing group to address this issue and have reviewed the arrangements in place within local offices to improve the accuracy of data input to the system.
70. We will continue to monitor SEPA's risk management arrangements and specific progress in each of these areas over the course of our audit appointment.

Efficiency

71. In the next three years budget settlement SEPA is required to make a 2% per annum cash releasing efficiency saving and absorb pay and cost inflation. The 2% efficiency represents savings of approximately of £0.71 million per annum. The 2009/10 budget includes savings of £0.83 million and the requirement to identify an additional £1 million of savings to balance the budget. SEPA recently completed an exercise which identified the required savings.



72. SEPA has identified key risks to achieving financial balance, including:
- the pay provision may not meet the costs arising from equal pay and job evaluation
 - non pay price inflation, particularly in fuel, may not be containable within budgets
 - the required efficiency savings may not be achieved
 - the economic down turn may cause a further reduction in income above anticipated levels
 - the impact of the waiver of application fees under the 10 point plan.
73. The achievement of efficiency savings in the current economic climate will be challenging for SEPA. We will continue to monitor the financial position and the actions taken by SEPA to manage these risks.
74. Audit Scotland published one national study, Improving civil contingencies planning, relevant to SEPA. They were one of the bodies that contributed to this study.

Improving civil contingencies planning

75. The overall aim of the study was to assess the requirement under the civil Contingencies Act 2004 for organisations to work together. This included examination of cooperation between key holders generally as well as specifically in relation to risk assessment, emergency and business continuity planning, training and exercising, and learning lessons. The study also looked at the resources and financial and performance management processes that support these activities. The key findings included:
- Overall, key organisations work well together particularly through their Strategic Coordinating Groups (focal point for local multi-agency civil contingencies planning) but barriers to joint working exist
 - The Scottish government has taken an active role in implementing the Act but this increased priority has placed greater demands on local responders
 - Governance and accountability arrangements for multi-agency working in civil contingencies planning are unclear
 - Lessons from incidents and exercises are not shared widely or systematically put in practice
 - There is no clear information on how much is spent on civil contingencies planning across Scotland
 - There is potential for more collaboration between organisations to increase capacity and make more effective use of resources.



Looking Forward

76. SEPA faces a number of challenges in 2009/10, including:

- **Efficiencies and future funding** - Budgets for 2009/10 and the immediate future will need to be managed within a tighter funding regime. This includes no scope for the application of end of year flexibility for the Government with HM Treasury until the next Spending Review; no option to transfer funds from capital to revenue; and the impact of the introduction of International Financial Reporting Standards (IFRS), particularly on PFI, leases and infrastructure accounting. In the next three years budget settlement SEPA is required to make a 2% per annum cash releasing efficiency saving and absorb pay and cost inflation. The challenge for SEPA is to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives
- **Change Programme** - The change programme contained within SEPA's Annual Operating Plan 2009 – 2010 is demanding but vital if SEPA is to continue to develop and improve. It involves key organisational change across a number of areas and will be a significant undertaking for SEPA during a period of tight financial constraints
- **National Performance Framework** - The Scottish Government is continuing to develop its approach to performance management based on the National Performance Framework and local authority single outcome agreements. This is an outcome-based approach that is reported to the public on the Scottish Government's web site in the 'Virginia-style' model of performance measurement and reporting. This will include progress on overall delivery of the administration's purpose for Government, the five strategic objectives for Scotland and other outcomes. SEPA will need to consider the impact of this developing area
- **Best Value** - Forecasted changes in public sector spending mean that SEPA must change the way it operates to enable them to do more with less. The change programme is essential in achieving this
- **International Financial Reporting Standards (IFRS)** - The timetable for IFRS implementation requires central government accounts in Scotland to become IFRS compliant with effect from the 2009/10 financial year. As part of the timetable for the implementation for IFRS, shadow accounts are to be produced for 2008/09 and provided for audit review by 30 November 2009. These processes will require a resource commitment to achieve and these issues are addressed early in 2009/10.