



Scottish Fisheries Protection Agency

Report on the 2008-09 Audit

14 July 2009

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1 Executive Summary

Introduction

We have audited the financial statements of the Scottish Fisheries Protection Agency (SFPA) for the year ended 31 March 2009 and examined aspects of SFPA's performance and governance arrangements. SFPA'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 SFPA's financial statements for 2008-09 and on the regularity of transactions undertaken during the financial year. During the year, SFPA incurred operating expenditure of £23.849m against a budget of £24.160m and capital expenditure of £2.000m against a budget of £2.600m, representing an underspend of £0.311m (1%) and £0.600m (23%) respectively.

The budget under spend mainly relates to the offset of a gain on disposal of an aircraft in the year, together with a gain on foreign exchange transactions.

Draft financial statements and supporting working papers were of a good standard and were provided by the finance team on 15 June 2009 in line with the agreed timetable.

Core financial systems

We found that core financial systems are generally designed effectively, although some deficiencies were found in the controls surrounding segregation of duties within both payroll, and income and banking. In particular, payroll staff currently have access to their own records, and there is a lack of independent review of the work performed by payroll staff.

Governance

We reviewed the adequacy of SFPA's internal control framework in risk management, budgetary control, and performance management. SFPA has generally good arrangements for risk management of the Marine Scotland transition process. However, staff shortages could become a critical risk area during this period. SFPA, and hence Marine Scotland should develop its budget setting and monitoring process in relation to income, and ensure monthly management financial reports are prepared.

Performance

As a result of the transition to Marine Scotland 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 in due course.

We carried out an overview of SFPA's arrangements in relation to the duty to deliver efficiency in their operations. SFPA exceeded its efficiency target for the year and our audit confirms that efficiency saving monitoring procedures are satisfactory.

SFPA fully achieved seven of its nine performance targets for the year but slightly underperformed against its targets for the percentage hours flown on aerial surveillance and for the audit of registered fish buyers and sellers. These targets are expected to be fully met in the coming financial year.

Recommendations from previous year

Our review found that only three of the recommendations from our 2007-08 audit had not been either fully implemented or subject to ongoing review. Of these outstanding recommendations none were regarded as high priority. These are summarised in Appendix A.

The Way Forward

The findings and recommendations from our review are summarised in an Action Plan that accompanies this report. The Action Plan has been agreed with management and incorporates the management response to audit recommendations. We have summarised the progress of implementation on recommendations made in our 2007 Interim Audit Report in Appendix A.

This report includes some specific recommendations to strengthen internal controls. It is the responsibility of management to decide the extent of the internal control system appropriate to SFPA.

We acknowledge that the transfer of SFPA'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 SFPA staff who have been involved in the audit for their assistance and co-operation.

This report is part of a continuing dialogue between SFPA and Grant Thornton and is not, therefore, intended to cover every matter, which came to our attention. Our procedures are designed to support our audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in SFPA's systems and work practices.

The report is not intended for use by third parties and we do not accept responsibility for any reliance that third parties may place on. The report will be submitted to the Auditor General for Scotland and will be published by him on his website at www.audit-scotland.gov.uk.

Grant Thornton UK LLP
14 July 2009

2 Financial Statements

Our Responsibilities

We audit the financial statements and give an opinion on whether:

- they give a true and fair view, in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers, on the state of affairs of SFPA as at 31 March 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 (FRM) and directions made thereunder by the Scottish Ministers
- 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; and
- assessing whether disclosures in the Statement are consistent with the information emerging from our normal audit work.

Overall Conclusion

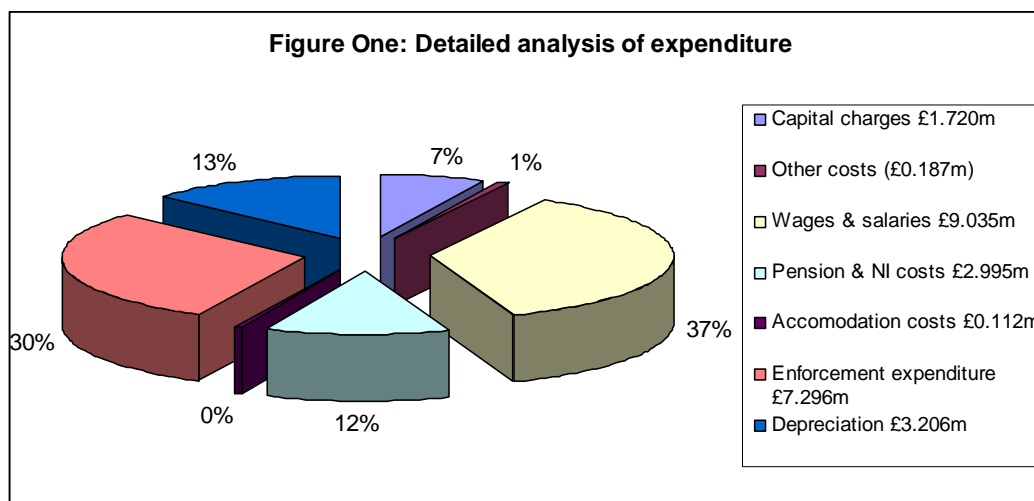
We are able to conclude that SFPA's financial statements give a true and fair view of the financial position for the year from 1 April 2008 to 31 March 2009 and that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and relevant guidance.

Standard of accounts and supporting papers

SFPA's draft financial statements were presented for audit on 15 June 2009 in line with the agreed timetable, however a reconciling trial balance was not received until 19 June 2009. This represents an excellent achievement as the finance section was not fully resourced during the financial year. A small number of changes to the draft accounts were, however, required to be processed following our audit to improve presentation and disclosure.

Financial Performance

A detailed analysis of SFPA's 2008-09 expenditure is shown at Figure One below.



SFPA's Operating Cost Statement for the year records a net expenditure of £23.849m against a budget of £24.160m representing an under spend of £0.311m (1%). The gross expenditure costs in the year were £24.177m (2008: £22,885m), this increase is mainly attributable to the increasing price of fuel that was seen throughout the 2008-09 year.

These costs were offset by the negative other costs of (£0.187m), these being the result of a gain on disposal of fixed assets of (£0.353m) and a gain on foreign exchange of (£0.181m). The gain on disposal is mainly due to the disposal of vessels and the part exchange of the aircraft. The part exchange of the aircraft was part of a long term agreement with Reims Aviation Industries for the supply of a new aircraft. The foreign exchange gain arose from the same transaction.

This part exchange disposal was agreed at a rate prior to the completion of the contract. Work has been performed on this area to ascertain whether or not this was a hedged financial instrument. As the forward contract derivative was found not to meet all the requirements of ISA 39 section 88, it was agreed that the derivative was not used for hedging.

The capital expenditure in the year totalled £2.0m against a budget of £2.6m, representing an under spend of £0.6m (23%). The main asset purchased in the year was the new aircraft.

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.

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 the recommendations from our 2008 Interim Audit Letter. 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 were operating effectively, however we noted that written procedures were not up to date. Following the transition into Marine Scotland procedures should be documented, and reviewed annually for necessary updates.

We noted that receipts and remittance advice slips are not issued when payments from debtors are received. We recommend that written payment confirmations are provided and that this is taken into consideration when the Marine Scotland written procedures are drafted.

In our 2007-08 report, we recommended that reconciliations should be prepared and reviewed for all bank accounts. During our 2008-09 interim audit we found that reconciliations for nil transaction bank accounts were not being reviewed. We recommend closing any accounts that are no longer in active use.

Action plan points 1 to 4

Fixed assets

Our review of fixed assets was limited to consideration of the design effectiveness of controls. We were not able to review the implementation of controls over fixed assets as the system was in the process of being transferred during our interim audit. We found the controls over fixed assets to be appropriately designed.

Payroll

Our interim audit included a review of both the control framework surrounding starters and leavers and the payroll reconciliation process. We noted that payroll written procedures have not been reviewed for a considerable period of time and as such they should be updated to reflect current practice and controls following the transfer to Marine Scotland.

Our review of the payroll reconciliation procedures confirmed that the system is appropriately designed. However it was noted that reconciliations between the Logica payroll system and the general ledger were not performed in the year.

We noted a lack of segregation of duties in relation to the payroll system controls, as payroll staff can access their own pay records, and amend their details without any independent review.

We understand the payroll officer reviews the percentage difference reports on a regular basis, however full reviews of the work performed by payroll staff is only completed on an ad hoc basis. Additionally, we noted that no formal processes are in place for departments to check the validity of employees listed on payroll, and that no authorised signatory list is available as to who can sign HR forms that are passed to payroll. We recommend a formal review process of payroll procedures should be implemented to ensure accuracy of starters and leavers.

Action plan points 5 to 11

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
- engaging stakeholders and making accountability real.

As part of our 2008-09 audit, we assessed the adequacy of SFPA's corporate governance arrangements against the Scottish Public Finance Manual. We examined:

- the structures and processes for decision making
- risk management and systems of internal control
- arrangements for the prevention and detection of fraud and irregularities
- standards of conduct, integrity and openness
- reporting arrangements and monitoring of SFPA's overall financial position.

Budget setting

There is no formal review of the risk register and corporate strategy during the budget allocation process. Budget allocations to operating units currently rely on management's knowledge of new developments in order to identify changes in funding requirements from year to year.

Budgets are prepared on a largely historical basis rather than on a zero based budgeting approach. The traditional budget setting approach does not always ensure that resources are targeted to the Agency's priorities and objectives.

Income is not currently accounted for in the budget setting process. The value of non departmental funding has increased in recent years, with miscellaneous receipts totalling £1,098k in 2008 (2007: £47k). Income should therefore be included in the budgeting process, to ensure the effective oversight and management of resources and expenditure.

Action plan points 12 to 14

Budget monitoring

Our review of budget monitoring arrangements at the Agency indicates that controls are designed effectively. However weaknesses were noted in the effective operation of these controls in the period.

Internal audit noted in their review of management financial reports that these reports had not been produced on a monthly basis throughout the period due to staff shortages and changes within the SEAS general ledger. This raises the risk that appropriate corrective action is not taken timeously and could result in an unforeseen overspend.

Action plan point 15

Variance reports highlighting movements from budget should be issued on a monthly basis, requiring the budget holder to explain movements of +/- 5% over the budget, we noted that this had not been done during the period of our audit. We understand that SFPA carried out a full re-profiling exercise in November 2008 to rectify this position. However, this level of budget monitoring should be done throughout the year to give management increased control over expenditure, and allow prompt corrective action to be taken if required.

Action plan point 16

Capital spend was not reviewed as part of this re-profiling exercise. However, it is our understanding that management closely monitor capital spend and as such do not consider a separate exercise necessary.

Workforce management

As part of our audit of SFPA's payroll controls, we noted that only limited management information is available from the central human resources system operated by Scottish Government on behalf of the Agency. In particular, management are unable to access information on absence management and workforce numbers or to easily interrogate staff information. In our view this limits the effectiveness of workforce management arrangements with the Agency.

Action plan point 17

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.

Our interim audit review found that SFPA has generally effective governance and financial system control arrangements in place.

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 SFPA, has a duty to ensure public resources are used economically, efficiently and effectively. These arrangements were extended in April 2002 to include a duty to ensure 'best value' in the use of resources.

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

SFPA have been set nine key performance targets by Scottish Ministers. Figure Two below, shows the Agency's performance against these targets:

Indicator	Target	Actual	Target Met
Overall Enforcement Effort			
Achievement of enforcement targets set by the EC	100	100	Yes
Percentage running costs on frontline activity	89	89	Yes
Aerial Surveillance			
Percentage of hours flown on task	85	81	No
Marine Surveillance			
Percentage effective patrol days utilisation	96	97	Yes

Indicator	Target	Actual	Target Met
Sea Fisheries Inspectorate			
Percentage of declared landings checked	70	83	Yes
Percentage of Scottish Registered Buyers and Sellers subject to audit check	50	43	No
Enforcement and Prosecutions			
Percentage of cases where reports to COPFS are prepared and ready for submission within 6 weeks of the detection of the offence	90	96	Yes
Percentage of cases where reports to COPFS is submitted, or other punitive or remedial action is instigated by the Agency	85	100	Yes
Finance			
Cash releasing efficiency gain	£482,000	£648,327	Yes

The Agency did not, therefore, achieve two of its key performance targets during 2008-09 being only marginally below targets.

Key performance indicators going forward should be linked to Marine Scotland strategic aims and objectives.

Efficient government

We carried out an overview of SFPA's arrangement in relation to the duty to deliver efficiency in their operations. The Agency has undertaken a range of improvement activities during the year but as previously reported, has not yet developed a formal process for measuring and monitoring efficiency.

Grant Thornton UK LLP
14 July 2009

Appendix A - Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation Date
Core Financial Systems					
1	Written procedures setting out banking processes are not up-to-date. This increases the risk that errors will not be correctly identified.	Low	Marine Scotland should review their written procedures and ensure these are available to all finance staff. Formal reviews should then be conducted on an annual basis.	This will be addressed as part of the transition to Marine Scotland.	June 2010
2	Reconciliations for bank accounts with no activity and minimal balances were not reviewed. This increases the risk that fraud or error will not be identified on a timely basis.	Low	All bank reconciliations should be reviewed by an independent person. Consideration should be given to closing any dormant accounts.	This will be addressed as part of the transition to Marine Scotland.	June 2010
3	One individual is responsible for opening and dealing with mail.	Low	Mail should be opened and scanned by one individual and dealt with by another individual.	This will be addressed as part of the transition to Marine Scotland.	June 2010
4	Remittance advice and receipts are not issued to debtors as cheques are received. This increases the risk of fraud.	Low	Remittance advice slips should be issued either by post or email on immediate receipt of funds.	This will be addressed as part of the transition to Marine Scotland.	June 2010

Appendix A - Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation Date
5	Written procedures setting out payroll procedures are not up-to-date. This increases the risk that errors will not be correctly identified.	Medium	Marine Scotland should review their written procedures and ensure these are available to all payroll staff. Formal reviews should then be conducted on an annual basis.	Payroll will now be undertaken centrally following the transition to Marine Scotland.	n/a
6	No formal process is in place for departments to check validity of employees listed on payroll systems.	Medium	Procedures should be implemented to allow department heads to confirm employees on payroll, at least on an annual basis.	Payroll will now be undertaken centrally following the transition to Marine Scotland.	n/a
7	No documented list of signatories for authorisation of HR forms is currently available.	Low	An official signatory list should be prepared.	Payroll will now be undertaken centrally following the transition to Marine Scotland.	n/a
8	Percentage difference reports are currently reviewed by the payroll officer. There is no formal review by another member of staff. This increases the risk that fraud or error will not be identified on a timely basis.	Medium	Reports should be reviewed by at least two members of payroll staff.	Payroll will now be undertaken centrally following the transition to Marine Scotland.	n/a

Appendix A - Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation Date
9	Payroll details for the payroll staff are not reviewed by independent person. This increases the risk that fraud or error will not be identified on a timely basis.	High	Payroll staff payment details should be reviewed by an independent person such as a member of HR or the finance team.	Payroll will now be undertaken centrally following the transition to Marine Scotland.	n/a
10	Reconciliations of the payroll records to the general ledger were not carried out during the year.	High	Reconciliations should be performed on a monthly basis.	Payroll will now be undertaken centrally following the transition to Marine Scotland.	n/a
11	There is a lack of segregation of duties within the payroll department as the same member of staff enters and reviews input data. This increases the risk that fraud or error will not be identified on a timely basis.	Medium	There should always be two fully trained members of payroll staff.	Payroll will now be undertaken centrally following the transition to Marine Scotland.	n/a
Governance					
12	Budget allocations are based on historical information, relying on management knowledge of new projects, with no specific reference to the current strategic aims and objectives of the Agency.	Medium	Budget allocations should be linked to the risk register, and strategic objectives of the Agency.	This will be addressed as part of the transition to Marine Scotland.	June 2010

Appendix A - Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation Date
13	Budgets are prepared on a historical basis rather than a zero based budgeting approach. The traditional budget setting approach does not always ensure that resources are targeted to the Agency's priorities and objectives.	Medium	Consideration should be given to using a more fundamental zero based budgeting approach.	This will be addressed as part of the transition to Marine Scotland.	June 2010
14	Currently budgets only consider operating expenditure and not income.	Medium	Income should be included in the budget setting process.	This will be addressed as part of the transition to Marine Scotland.	June 2010
15	Management reports have not been compiled on a monthly basis, raising the risk that appropriate corrective action is not taken timeously. This could result in significant overspend.	Medium	Management financial reports should be prepared monthly, and sent to the SMB and budget holders.	This will be addressed as part of the transition to Marine Scotland.	June 2010
16	Monthly variance reports have not been issued to budget holders requesting explanations for significant movements. This increases the risk that management cannot take corrective action on a timely basis.	Medium	Variance reports should be issued on a monthly basis, and explanations obtained.	This will be addressed as part of the transition to Marine Scotland.	June 2010

Appendix A - Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation Date
17	Only limited management information is available from the central human resources system operated by Scottish Government. In particular, management are unable to access information on absence management and workforce numbers or to easily interrogate staff information.	Medium	Management should liaise with the Scottish Government to improve the functionality and management information available from the HR system to support effective workforce management.	This will be addressed as part of the transition to Marine Scotland.	June 2010

Appendix B- 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.

Appendix B- Matters to those charged with governance

Key Findings:

5.1 Financial Instruments

Under the FReM public bodies are required to make full *FRS 25 Financial Instruments* disclosure in the financial statements. Financial instruments include the assets and liabilities of the entity.

An accounting policy will need to be included in the accounts which shows how these instruments create and manage risk.

Resolution

Per the FReM the entity is required to disclose an accounting policy and note, which is in accordance with FRS 25.

We have provided suggested wording for this policy at Appendix C.

5.2 Depreciation Accounting Policy

It was noted during a review of the depreciation rate and how they are applied that the rates disclosed in the accounting policies do not accurately reflect the rates actually used when calculating the charge.

Resolution

We would recommend that the depreciation accounting policy is updated, and that the bands of rates used for each class of asset be disclosed instead of only one rate.

5.3 Fixed Asset Addition Authorisation

During a review of the fixed asset additions it was noted that an asset was purchased without the approval of the Finance Manager. From the sample we selected there was only one instance of this occurring.

Resolution

It should be ensured that the policies and procedures in place over the fixed assets are being correctly followed by all staff.

We would also recommend that a full review of the fixed asset additions is carried out to ensure there are no unauthorised or unusual additions.

Appendix B- Matters to those charged with governance

5.4 Forward contracts

It has been noted that there was an agreement made with Reim Aviation Industries to freeze the exchange rate offered for the part exchange of the old aircraft at 1.27 € = £1.

We have agreed that there was no hedging relationship, as all of the necessary conditions of *LAS 39 (para 88)* were not met.

However, this agreement does potentially qualify as a "forward contract". A forward contract being:

"an agreement between two parties to buy or sell an asset at a specified point in the future. The price of the underlying instrument, in whatever form, is paid before control of the instrument changes"

This transaction would be deemed an over the counter forward as it was a privately negotiated contract between two parties, and as such additional derivative disclosures would be required within the financial statements

Resolution

We agreed further disclosure within the accounts in relation to SFPA's policy for financial instruments and for disclosure of the forward contract transaction.

Appendix B - Matters to those charged with governance

5.5 Income Accounting Policy

The current income accounting policy does not sufficiently describe when the entity income is recognised.

Resolution

We would recommend the income policy is expanded to comment on when income is recognised within the financial statements.

5.6 Management Meeting Minutes

Following a review of the management meeting minutes in the year, we noted these only provided bullet points of the discussion topics. The minutes provided did not allow us to review the outcomes and agreed actions of any of the discussions.

Resolution

We would recommend that more comprehensive meeting minutes are maintained of the matters discussed by the audit committee

5.7 Fixed Asset Revaluation

We noted during the revaluation work that the 2008 Indices used for the revaluation calculations were not at the year end date. This resulted in a difference when we recalculated the valuations.

Resolution

Once the revaluation calculations have been completed for the year end, we would recommend a copy is maintained together with a copy of the relevant indices.

We also noted that no copy of the year end calculations were maintained for review at the audit. This was due to the calculation being completed automatically by the fixed asset system.

Appendix B - Matters to those charged with governance

Accounting Issues

Standard of accounts and supporting papers

The effectiveness of the audit could have been improved if a final trial balance, reconciled to the draft financial statements, was available on the first day of our audit fieldwork.

Summary of adjusted audit differences

This is a summary of audit differences proposed following the audit to the year ended 31 March 2009.

No	Description	Profit and loss account		Balance sheet	
		DR £'000	CR £'000	DR £'000	CR £'000
1	Social Security & Other Taxes			163	
	Sundry Creditors				(163)
	<i>Being reallocation of pension creditor from other taxes</i>				

Appendix C - FRS 25 suggested disclosure

Suggested accounting policy for inclusion in the year end financial statements:

Financial instruments

Financial assets (represented by lending and receivables) are carried in the balance sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cashflows that will take place over the remaining period of the instrument, using the following assumptions:

- - no early repayment or impairment is recognised
- - where an instrument will mature in the next 12 months, the carrying amount is assumed to approximate to fair value
- - the fair value of trade and other receivables is taken to be the invoiced or billed amount.
- - an impairment review is carried out for all financial assets at the balance sheet date.

Credit risk

Credit risk arises from the short-term lending of surplus funds to banks, building societies and other third parties as well as credit exposures to SFPA's customers. SFPA has deposits with the Royal Bank of Scotland, Bank of Scotland and Clydesdale Bank, thus spreading the risk.

SFPA now reviews the credit risk associated with financial institutions on a monthly basis and more regularly if market conditions are volatile or other information is made available on the financial security of UK banks and building societies.

Liquidity risk

The entity does not have any external borrowings.

Market risk

Changes in market interest rates influence the interest payable on borrowings and on interest receivable on surplus funds invested.



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