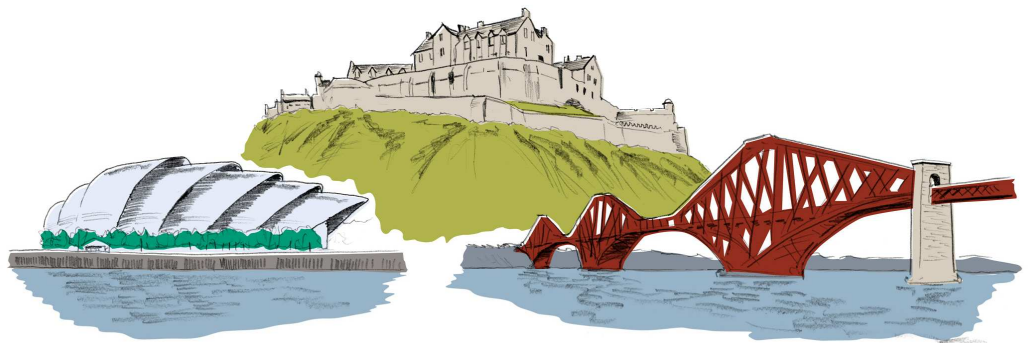


Scottish Commission for Human Rights

2010-11 Audit
Annual Report to the Commission and the Auditor General for Scotland

15 September 2011



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1 Executive Summary

Purpose of the report

- 1.1 We have audited the financial statements of the Scottish Commission for Human Rights (SCHR) for 2010-11, and examined aspects of SCHR's performance and governance arrangements. This report sets out our key findings.
- 1.2 This report meets the mandatory requirements of the Code of Audit Practice and International Standard on Auditing 260 (ISA 260) to report the outcome of the audit to 'those charged with governance', designated as the Audit Committee. The requirements of ISA260, and how we have discharged them, are set out in more detail at Appendix B.

Audit conclusions

Financial results

- The Operating Cost Statement for the year recorded net operating costs of £1 million.
- In 2010-11, the Scottish Parliamentary Corporate Body (SPCB) awarded SCHR a budget of £1 million. Total expenditure for revenue and capital, and adjusting for notional costs such as depreciation was in line with the budget
- Looking ahead, SCHR is considering the impact of any future cuts in the budget as part of its efficiency review programme. SCHR recently relocated staff as part of an office share arrangement with the Scottish Public Service Ombudsman. This move is expected to achieve a 4% saving in SCHR's 2011-12 budget allocation.

Financial Statements

- We intend to issue an unqualified audit report on both the financial statements and the regularity of transactions for the year ending 31 March 2011.
- Three audit adjustments have been processed to the draft accounts relating to missed accruals and correction of a misallocated credit balance. We have recommended that SCHR improve procedures for identifying and recording accruals at the year end.

Governance and Performance

- The financial planning and budgetary processes are well developed and effective
- SCHR has responded well to the finding of Audit Scotland's report on the 'Role of Boards' and completed a review of the effectiveness of the Commission's governance arrangements during the year.
- In May 2011, the Commission was elected chair of the European Group of National Human Rights Institutions

Next Steps

- 1.3 Matters arising from the financial statements audit have been discussed with the Chair of the Commission and the Business Manager. We have made a number of recommendations, which are set out in the action plan at Appendix A.

Use of this report

- 1.4 This report has been prepared solely for use by SCHR to discharge our responsibilities under the Code of Audit Practice, and should not be used for any other purpose. This report is part of a continuing dialogue between SCHR 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 SCHR's systems and work practices.
- 1.5 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. 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.

Acknowledgements

- 1.6 We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the staff of SCHR, in particular to the Chair of the Commission and the Business Manager.

Grant Thornton UK LLP

15 September 2011

2 Financial results

Operating cost statement

- 2.1 For the year ending 31 March 2011, the net operating costs of SCHR were £1 million. Table 1 highlights the financial results for the year.

Table 1: Financial Results for 2010-11 (£'000)

	2011	2010
Staff costs	602	550
Other administration costs	414	435
Depreciation	9	8
Income	(20)	(26)
Net operating costs	1,005	967

Source: 2010-11 financial statements

- 2.2 Total net operating costs have increased by £38,000 (3.9%). The main increase in the year was staff costs which increased by £52,000 (9.4%). The increase in staff costs reflects the increase in the number of staff (FTE increase of 0.5), inflationary increases in staff salaries and an increase in employer's pension contributions of £10,000.

Budget outturn

- 2.3 The budget for the year to 31 March 2011 was £1 million. Total expenditure for the year was £998,000 after adjusting for non-cash items of £9,000.

Looking forward

- 2.4 The budget allocation for 2011-12 has been set at £960,000, a reduction of £40,000 (4%).
- 2.5 The main budget savings for the year will be in property as SCHR relocates its staff as part of an office share arrangement with the Scottish Public Service Ombudsman.
- 2.6 SCHR is currently developing plans to manage potential future reductions in budget of up to 15% over the next three years.
- 2.7 A new finance and risk committee is to be established under the Commission. This will scrutinise the financial position and operational aspects of the Commission's work.

Action plan point 1

3 Financial statements

Introduction

- 3.1 This section provides a summary of findings arising from our audit of the financial statements. This includes matters arising from our evaluation of key controls and comment on SCHR's overall financial position.
- 3.2 We audit the financial statements and give an opinion on whether:
- they give a true and fair view, in accordance with the Scottish Commission of Human Rights Act 2006 and directions made thereunder by the Scottish Ministers, on the state of affairs of SCHR as at 31 March 2011 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 (FReM) 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.
- 3.3 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.

Key risks

Key risk from the AAM	Work completed
<p>Cost of Capital</p> <p>The 2010-11 Government Financial Reporting Manual (FReM) no longer requires bodies to account for the cost of capital within their accounts from 2010-11.</p> <p>In accordance with International Accounting Standard 8, Accounting policies, changes in accounting estimates and error, this should be treated as a change in accounting policy and a prior year adjustment is required.</p>	<p>The cost of capital charge for SHRC in both years was significantly less than £1,000 and as such is not disclosed in the accounts on the basis of materiality.</p> <p>The accounting policy for notional costs was updated in line with guidance provided by the Scottish Government.</p>

Audit conclusions

- 3.4 We intend to provide an unqualified opinion on the financial statements, and on the regularity of transactions undertaken during the year, following approval of the accounts by the Audit Committee and the Board.

Matters arising from the financial statements audit

- 3.5 We were presented with draft accounts on 18 August 2011, in line with the timetable. The working papers provided continue to be of good quality.
- 3.6 There are audit adjustments that were processed following our audit:

Table 2: List of adjusted misstatements

Adjustments affecting reported results	Operating cost statement		Statement of financial position	
	Dr £	Cr £	Dr £	Cr £
Missed accruals To recognise 2 missed accruals for the annual report and staff expenses	5,147			5,147
Reallocation of credit balance To reallocate grant income from expenditure to income	2,413	2,413		
TOTAL	7,560	2,413		5,147

- 3.7 The impact of the adjustments on the Operating Cost Statement are to increase the net expenditure by £5,147.
- 3.8 We also recommended a number of minor changes to the presentation of the financial statements, and these have been processed by management.

Evaluation of key controls

- 3.9 We have undertaken sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Our evaluation of SCHR's key financial control systems did not identify any control issues that present a material risk to the accuracy of the financial statements.
- 3.10 We have 2 recommendations relating to controls arising from our substantive audit procedures:
- SCHR missed two accruals at the year end, resulting in audit adjustments of £5,147 to the operating cost statement. We also noted that accruals were missed in the 2009-10 audit. We would recommend that management review the close downs procedures for the 2011-12 accounts to ensure all relevant accruals and identified and processed in the draft financial statements.

- We noted that a bank account was held by SCHR which was not on the financial ledger. The account is no longer used and the remaining balance was not material to the accounts, but there is a control risk if bank accounts are not closed promptly when no longer required.

Action plan points 1-2

- 3.11 We carried out a high level review of the general IT control environment as part of the overall review of the internal control system and concluded that there were no material weaknesses within the IT arrangements that could adversely impact on our audit of the accounts.

Statement on Internal Control (SIC)

- 3.12 The Statement on Internal Control sets out the arrangements established and operated by SCHR for reviewing the effectiveness of the system of internal control and the identification and management of risk. We have examined SCHR's arrangements and processes for compiling the SIC. In addition, we read the SIC and considered whether the statement is in accordance with our knowledge of SCHR.
- 3.13 We reviewed the draft SIC and are satisfied that it complies with guidance contained in the Scottish Public Finance Manual that the process put in place by the Accountable Officer to obtain assurances on systems of internal control is adequate, and that the contents of the Statement are consistent with the information obtained from our normal audit work.

Annual report

- 3.14 We considered SCHR's arrangements for compilation and submission of the annual report and received a complete draft annual report in sufficient time to undertake the required audit procedures prior to reporting to the Audit Committee.
- 3.15 We reviewed the draft annual report and are satisfied that the content of the annual report, including the remuneration report, is in accordance with the Government Financial Reporting Manual, and our knowledge of SCHR.

4 Governance and performance

Governance

- 4.1 Corporate governance is the system by which organisations direct and control their functions and relate to their stakeholders, 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.
- 4.2 As part of our 2010-11 audit, we assessed the adequacy of SCHR's governance arrangements against good practice standards for the public sector. Overall, we found that SCHR's governance arrangements operated well and within a generally sound control environment. SCHR complies with the good practice guidance in relation to governance, as outlined in the Scottish Public Finance Manual, in so far as it is relevant to the role of SCHR.

Performance

- 4.3 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.
- 4.4 The Accountable Officer 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.

Work completed in the year

- 4.5 As part of our 2010-11 audit, we assessed the adequacy of SCHR's governance and performance arrangements. Our Audit Approach Memorandum for 2010-11 set out the key risks relating to the governance aspects of our audit. Exhibit two below highlights the work completed against each risk area.

Key risk from the AAM	Conclusions
<p>Audit Scotland – Board effectiveness outcome</p> <p>Audit Scotland published their report on the Role of Boards in 2010. The study aims to assess the role and effectiveness of boards in public bodies.</p> <p>The general points raised by the report include:</p> <ul style="list-style-type: none"> • Chief executives and their boards have parallel lines of accountability and this can cause confusion over who leads the organisation unless the separate roles are well defined and understood • There are concerns about the recruitment of board members, including the falling number of applicants, the length of the recruitment process and the diversity of applicants. • How Board's monitor and manage risk. 	<p>From discussions with the Chair of the Commission, the report has been utilised by during the year as part of a process to improve how the effectiveness of how the Commission works and operates.</p> <p>During the year, the Commission held two 'away days' to discuss how to improve their effectiveness, and the checklist in the national report was utilised to assist in this task.</p> <p>An action plan has been produced from this exercise, and progress against the actions are being monitored closely by the Commission.</p>

Key risk from the AAM	Conclusions
<p>Public Service Reform Act</p> <p>The Public Services Reform (Scotland) Act 2010 received Royal Assent on 28 April 2010. Part 3 of the Act will require SCHR to publish a statement of expenditure which has been incurred during the financial year in relation to: public relations, overseas travel, hospitality and entertainment, external consultancy. In addition, disclosures of persons earning over £150,000 will be required</p> <p>Draft guidance has been published by the Scottish Government on how public bodies should respond to Part 3 of the Act.</p>	<p>SCHR has enacted the requirements of the Act during 2010-11, and publish all relevant expenditure categories and all payments over £25,000 on a monthly basis on their website.</p> <p>An annual statement will also be prepared and published to comply with the requirements of the Act.</p>
<p>Audit Scotland national reports.</p> <p>Audit Scotland periodically undertakes national studies on topics relevant to the performance of central government bodies. While the recommendations from some of the studies may have a national application, elements of the recommendations are also capable of implementation at local level, as appropriate.</p> <p>During 2009-10, we are required to follow up SCHR's response to the report, <i>Improving public sector purchasing</i>, (published July 2009)</p> <p>The follow up work will be directed by Audit Scotland's Performance Audit Group.</p>	<p>Relevant national reports are received by the Business Manager and distributed to the Commission for review as appropriate. The main report considered in the year was the Board effectiveness report, which is discussed above.</p> <p>SCHR is below the thresholds for a procurement capability assessment, and there have been no major procurement exercises in the year.</p> <p>SCHR maintains procurement regulations in the finance manual, and the process is overseen by the business manager.</p>

European Group of National Human Rights Institutions

- 4.6 In May 2011, the Commission was elected chair of the European Group of National Human Rights Institutions. The group is one of four internationally that co-ordinates the work of national human right institutes similar to SCHR. The two year appointment is a significant achievement for the Commission, and will lead to an increased profile at home and globally.

A Action Plan

Rec. No.	Finding	Risk	Recommendation	Management response	Implementation date and responsibility
1	<p>Financial position</p> <p>The Commission has taken steps to meet the planned reduction of £40,000 (4%) in the 2011-12 budget.</p> <p>Going forward, further significant reductions may be required to meet future budget allocations.</p>	High	The Commission should continue to closely monitor the financial position, and financial projections should be updated once future budget allocations are available from the SPCB.	At the time of the audit the budgeting submission cycle had not yet been completed. SCHR submitted their 2012/13 budget bid and 2013/14 indicative budget to SPCB on 01/09/2011. This has since been forwarded to Grant Thornton. SCHR have committed to making 15% real term reductions by 2013/14. The most recent budget submission to SPCB achieves this 15% reduction in our indicative budget by 2013/14.	01/09/2011 Business Manager
2	<p>Accruals</p> <p>We noted 2 missed accruals at the year end, relating to the annual report and staff expenses. There is a risk that the accounts are misstated if accruals are not identified and recognised as required.</p>	Medium	Management should review procedures for ensuring accruals are promptly identified and recognised in the financial statements.	This will be reviewed.	01/10/2011 Business Manager
3	<p>Bank accounts</p> <p>We noted that SCHR maintained one bank account at the year which was not on the ledger. The bank account was opened during the year to comply with a third party grant provider's conditions and the year end balance was not material to the financial statements.</p>	Low	<p>Future bank accounts that are opened by SCHR should be included on the ledger for completeness.</p> <p>Any dormant bank accounts should be closed promptly to mitigate the risk of inappropriate transactions being processed.</p>	This bank account will be closed.	15/09/2011 Business Manager

B The small print

Purpose of memorandum

This Report has been prepared for the benefit of discussions between Grant Thornton and the Scottish Commission for Human Rights (SCHR).

The purpose of this memorandum is to highlight the key issues affecting the results of SCHR and the preparation of the organisation's financial statements for the year ending 31 March 2011.

This document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

We would point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of the organisation.

This memorandum is strictly confidential and although it has been made available to management to facilitate discussions, it may not be taken as altering our responsibilities to the organisation arising under the Code of Audit Practice.

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.

Responsibilities of the Accountable Officer and auditors

The Accountable Officer is responsible for the preparation of the financial statements and for making available to us all of the information and explanations we consider necessary. Therefore, it is essential that the Accountable Officer confirms that our understanding of all the matters in this memorandum is

appropriate, having regard to their knowledge of the particular circumstances.

Clarification of roles and responsibilities with respect to internal controls

SCHR's management is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the Accountable Officer that it has done so.

The Accountable Officer is required to review the organisation's internal financial controls. In addition, they are required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk.

The Accountable Officer should receive reports from management as to the effectiveness of the systems they have established as well as the conclusions of any testing conducted by internal audit or ourselves.

We have applied our audit approach to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you.

In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We would be pleased to discuss any further work in this regard with the Accountable Officer and the Commission.

Independence and robustness

Ethical standards require us to give you full and fair disclosure of matters relating to our independence.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

In accordance with best practice, we analyse our fees below:

	£ incl VAT
Grant Thornton UK LLP	13,000
Audit Scotland fixed charge	900
Fee for audit of United Nations grant	1,500
Total	15,400



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