

Scottish Social Services Council

Report on the 2010/11 Audit



Prepared for the Scottish Social Services Council and the Auditor General for Scotland

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

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Key messages

2010/11

The Scottish public sector faces significant challenges in balancing budgets while also delivering on its commitments. In 2010/11 we looked at the key strategic and financial risks being faced by the Scottish Social Services Council (SSSC). 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.

We have given an unqualified opinion on the financial statements of the SSSC for 2010/11. 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.

In 2010/11 the SSSC achieved a net under spend of £0.102 million. This is the difference between the net operating costs for the year of £9.414 million and the funding received from the Scottish Government of £9.516 million.

Overall the corporate governance and control arrangements for the SSSC operated satisfactorily during the year. These include an effective Audit Committee which challenges senior management on key issues as appropriate. The Council is supported by a robust internal audit function.

The SSSC has developed new arrangements for overseeing and monitoring the delivery of best value, linking these to the delivery of efficiency saving arrangements. This will provide the SSSC with a robust framework for the prioritisation of services and resources.

Procurement is a significant element of the Scottish Government's Efficient Government Agenda. The Scottish Government conducted a Procurement Capability Assessment of the SSSC and found that improvements have been made in procurement processes and plans are in place to further develop procurement capability.

Outlook

Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. The position going forward is becoming even more challenging than in previous years with limited increases in funding, increasing cost pressures and challenging savings targets. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight.

The Scottish budget will reduce in real terms but the full extent of this is not yet known. Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available. In the current economic climate difficult decisions will have to be made across the public sector about priority spending programmes.

Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of the Scottish Social Services Council (SSSC). The purpose of the report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
2. Our audit did not identify any high level risks which required action by the SSSC during the year 2010/11.
3. This report is addressed to the SSSC and the Auditor General and should form a key part of discussions with Audit Committees, either prior to or as soon as possible after the formal completion of the audit of the financial statements. Reports should be made available to stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
4. This report will be published on our website after consideration by the Audit Committee.
5. The management of the SSSC is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
6. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by management and staff of the SSSC during the course of our audit.

Financial Statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
 - the regularity of the expenditure and income (except for local government bodies).
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the management commentary, statement on internal control and the remuneration report. Where required, auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit on the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of the SSSC for 2010/11 give a true and fair view of the state of the body's affairs and of its excess of comprehensive expenditure over income for the year.
11. The SSSC is required to follow the 2010/11 Government Financial Reporting Manual (the FReM) and we confirm that the financial statements have been properly prepared in accordance with the FReM.

Going concern

12. As at 31 March 2011 the SSSC has a net liability on the statement of financial position of £2.759 million (£5.833 million net liability as at 31 March 2010). This significant movement was due to a £1.871 million net decrease in assets; a £1.379 million decrease in current liabilities and a £3.566 million reduction in non-current liabilities. The most significant component of these movements was due to a past service gain in the valuation of the pension scheme arising from a decrease in the valuation of pension liabilities of £1.934 million and an increase in the valuation of assets of £1.632 million. The financial statements have been prepared on a going concern basis as the Council has no reason to believe that the support of the sponsor department, the Children and Families Directorate, will not be forthcoming.

Regularity

13. In accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000, we have also provided an opinion, that in all material respects, the expenditure and

receipts in the financial statements were incurred or applied in accordance with applicable enactments and guidance.

Remuneration report and statement on internal control

14. In our opinion, the audited part of the remuneration report has been properly prepared and the remaining elements of the remuneration report and management commentary are consistent with the financial statements.
15. We also confirm that we have no issues to report to you on the statement of internal control and its compliance with guidance.

Accounting issues

Accounts submission

16. The financial statements were submitted for audit on 30 June, in accordance with a pre-agreed timetable. The good standard of the supporting papers and the timely responses from SSSC staff allowed us to conclude our audit within the agreed timetable as outlined in our Annual Audit Plan.
17. As required by auditing standards we provided our opinion and reported to the Audit Committee the main issues arising from our audit of the financial statements on 3 October. The main points are noted below.

Presentational and monetary adjustments to the unaudited accounts

18. A small number of presentational changes were required to the annual report and accounts as a result of our review of the disclosures required by the FReM and the audited financial statements have been adjusted to reflect this.

Prior year adjustments

19. All central government bodies have been affected by the removal of the cost of capital in the 2010/11 FReM. This change is identified in the accounting policies and appropriate amendments have been made to the prior year statements.

Whole of government accounts/consolidation packs

20. The whole of government accounts (WGA) is the consolidated financial statements for all branches of government in the UK. Most central government bodies are required to submit a consolidation pack by 29 July. The SSSC submitted its pack to Audit Scotland on 15 July. Auditors need only audit WGA returns from bodies that have gross assets, gross liabilities, or gross income (including grant in aid) or gross expenditure of more than £50 million. As the SSSC's assets, liabilities, income and expenditure fall below the threshold no audit is required.

Outlook

21. The main change in the financial reporting framework (FReM) next year (2011/12) is that grants and donated assets should be recognised immediately, unless there is a condition that the recipient had not satisfied that would lead to repayment. This is unlikely to have much (if any) impact on SSSC.
22. Looking further ahead, from 1 January 2013 changes to international financial reporting standards (IFRSs) will become effective. This includes the introduction of:
 - IFRS 9 - financial instruments (replacing IAS39)
 - IFRS 10 - consolidated financial statements (replacing IAS27)
 - IFRS11 - joint arrangements (replacing IAS31)
 - IFRS12 - disclosure of interest in other entities (replacing IFRS12)
 - IFRS 13 - fair value.
23. Revisions to the FReM for 2013/14 are included in the Financial Reporting Advisory Board (FRAB) forward work programme for 1 December 2011.

Audit appointment for 2011/12

24. Audit appointments are made by the Auditor General, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment. The procurement process for the next five years was completed in May 2011. From next year (2011/12) the auditor for the SSSC will be the Auditor General for Scotland. As Audit Scotland will be appointed as the auditor for the SSSC, we look forward to continuing the good working relationship that exists and thank officers and members of the Council and committees for their assistance during the last five years. We will be meeting with the incoming audit team, later in the year, as part of a managed changeover process.

Financial position

25. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
26. Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
27. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results 2010/11

28. The annual budget approved by the Scottish Parliament was £13.362 million for 2010/11, comprising grant in aid of £9.299 million and other income and Government grants of £4.063 million, including Practice Learning Fees.
29. Gross revenue expenditure for the year totalled £13.068 million comprising staff costs of £5.268 million, other operating costs of £2.624 million and payments of grants, awards and bursaries of £5.176 million. During 2010/11 the SSSC received total revenue income of £13.170 million, comprising £8.890 million from the Scottish Government and £3.654 million from fees and other income. A transfer of £0.626 million was made from two specific reserves giving an overall surplus for the year of £0.102 million.
30. The SSSC operated within the budget limits set by the Scottish Government for capital and operating expenditure, and met its efficiency saving targets, mainly as a result of controlling expenditure on staff and administration costs. Savings in staff costs have mainly resulted from slippage in filling posts in Registration and Legal teams as new registrations were less than anticipated.

Budgetary control

31. Robust budget setting procedures are in place at the SSSC including monitoring processes to challenge any actual or projected overspend and ensure that the organisation as a whole remains within budget. The budgetary position was monitored throughout the year and action taken to respond to the reduced workload requirements resulting from fewer than anticipated new registrations.

32. In setting the 2011/12 budget, a rigorous approach has been taken for expected increases or decreases in services provision and the impact on each budget heading. Where possible, a zero based approach has been adopted.

Financial position at 31 March 2011

33. The Statement of Financial Position shows a net liability position of £2.759 million at 31 March 2011 (net liability of £5.833 million at 31 March 2010). This overall reduction of £3.074 million is due mainly to a past service gain in the valuation of the pension scheme. The volatile nature of the SSSC's financial position is largely due to factors which have been outwith the control of the organisation (valuation of the pension scheme, the first time adoption of IFRS and the unpredictability of the number of new registrations).

Outlook

2011/12 budget

34. Scottish Ministers have approved a budget of £14.310 million for the SSSC for 2011/12. Of this, £9.3 million will be funded from Grant in Aid and £5.010 million from income from fees and other government grants. At a time when most public sector bodies are facing either reduced budgets or modest increases, the SSSC's budget for 2011/12 is an increase of £0.948 million (7.1%) on the previous year. This is in recognition of the SSSC as a growing organisation.
35. As at September 2011 SSSC are forecasting a break-even position at the end of 2011/12. Going forward, there are additional risks for managing the budget given the degree of uncertainty in terms of the number of new registrations and the complexity and unpredictability of conduct cases. The impact of additional legal costs for conduct cases will be more difficult to manage now that the Sponsor has ruled that the SSSC can no longer hold a specific reserve to cover these.
36. An additional cost pressure arises from the need to replace the OSCAR Registration system in 2011/12. The cost of the replacement system is estimated at £0.500 million and funding of £0.425 million has been included in the approved budget for 2011/12 and £0.075 million in the indicative budget for 2012/13. It is anticipated that further funding will be required for maintenance and minor developments beyond this. There are potential risks for managing a project of this nature and there is no guarantee that additional funding would be provided by the Sponsor should costs overrun.

Financial forecasts beyond 2011/12

37. The indicative budget for 2012/13 is £14.164 million, comprising Grant in Aid of £9.544 million and income from fees and other government grants of £4.620 million. This is a reduction of £0.146 million (1%) on the previous year and the level of savings required to balance the budget will be challenging for the SSSC as a growing organisation.

38. Robust budget monitoring systems will need to be in place to ensure the SSSC operates within the tight budget constraints in place for the next financial years.

Governance and accountability

39. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
40. Through its chief executive, or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
41. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
42. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

43. The corporate governance framework within the SSSC is centred on the Council which is supported by a number of standing committees that are accountable to it. The Council is responsible for ensuring that the SSSC fulfils the aims and objectives set by Scottish Ministers. The role of the Council includes establishing the overall strategic direction, monitoring performance against agreed objectives and ensuring that statutory requirements for the use of public funds are complied with.
44. The Audit Committee monitors and reviews risk, control and corporate governance and reports to the Council. The SSSC has an effective Audit Committee which challenges senior management on key issues as appropriate and ensures recommendations are implemented, monitored and followed up.

Internal control

45. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, our wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.

46. 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 2010/11 Scott-Moncrieff, the SSSC's internal auditors, provided their opinion that, based on the internal audit during the year, there were no significant weaknesses that required specific mention in the Statement on Internal Control.
47. As part of our audit we reviewed the high level controls in a number of the SSSC's systems that impact on the financial statements. This audit work covered a number of areas including:
- Main Accounting System
 - Budgetary Control
 - Payroll
 - Purchasing and creditors
 - Income and Debtors
 - Cash and Bank.

Our overall conclusion was that the SSSC had adequate systems of internal control in place in 2010/11.

Internal Audit

48. A key element of our work on internal controls is the extent of reliance that we can place on the work of internal audit in terms of International Standard on Auditing 610 (Considering the Work of Internal Audit). We carried out a review of the internal audit function in November and concluded that the internal audit service operates in accordance with Government Internal Audit Standards and has sound documentation standards and reporting procedures in place.
49. We placed reliance on aspects of their work in a number of areas including payments and creditors. This approach ensures we are delivering an efficient, co-ordinated audit that avoids unnecessary duplication and expense.

Statement on internal control

50. The Statement on Internal Control (SIC) provided by the SSSC's Accountable Officer reflected the main findings from both external and internal audit work. The SIC records management's responsibility for maintaining a sound system of internal control and summarises the process by which the Accountable Officer obtains assurances on the contents of the SIC.

Prevention and detection of fraud and irregularities

51. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on those arrangements.

52. The SSSC has appropriate arrangements in place (based on Scottish Government guidance) to prevent and detect instances of fraud including a Fraud Policy and a Whistle-blowing Policy which are available on its website. There are also clear roles for internal audit in investigating cases of suspected fraud.
53. There were no instances of fraud reported by the SSSC in 2010/11.

Standards of conduct and arrangements for the prevention/ detection of bribery and corruption

54. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. We have concluded that the arrangements in the SSSC are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Best Value, use of resources and performance

55. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.
56. The Auditor General may require that auditors consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where no requirements are specified for auditors in a period they may, in conjunction with their audited bodies, agree to undertake local work in this area.
57. As part of their statutory responsibilities, the Auditor General and Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
 - a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
58. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments. Audit Scotland has prepared a series of Best Value toolkits to facilitate its reviews in these areas.
59. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
60. This section includes commentary on Best Value/performance management arrangements within the SSSC. We also comment on any headline performance outcomes/measures used by the SSSC and comment on any relevant national reports and the body's response to these.

Management arrangements

Best Value

61. In March 2011, the Scottish Government issued new guidance for accountable officers on Best Value in Public Services. The new guidance, in essence, required public bodies to take a systematic approach to self-evaluation and continuous improvement.
62. The guidance identifies the themes which an organisation needs to focus on in order to deliver the duty of Best Value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.

63. The five themes and two cross-cutting themes (some of which we have commented on earlier in this report) are:
- vision and leadership
 - effective partnership
 - governance and accountability
 - use of resources
 - performance management
 - equality (cross-cutting)
 - sustainability (cross-cutting).
64. The SSSC has recently developed new arrangements for overseeing and monitoring the delivery of Best Value, linking these to the delivery of efficiency saving arrangements. The approach sets out a revised system to corporate planning and budgeting combined with a number of initiatives which were underway to respond to the financial restrictions faced by public sector bodies. This comprehensive approach will be rolled out over a two year period and will provide the SSSC with a robust framework for the prioritisation of its services and resources, clearly linking priorities and objectives to the SSSC's identified outcomes.

Overview of performance in 2010/11

65. The SSSC's strategic objectives are set out in its Corporate Plan along with a range of measures and key performance indicators to assess the success of achieving these. Performance against strategic objectives is analysed in the SSSC's published Annual Report. There are no specific financial targets.
66. Overall, the SSSC was successful in meeting its corporate objectives with the majority being achieved in full.
67. The Procurement Capability Assessment (PCA) was launched by the Scottish Government in June 2009. Its aim being, to assess the procurement capability across the public sector to identify both best practice which can be shared and gaps in procurement capability to enable relevant tools and processes to be developed to drive performance improvement. The first annual PCA was completed by the Scottish Government in 2010 and feedback was positive, acknowledging that the SSSC had made progress in its procurement practices. A number of areas for improvement were identified by the PCA and an action plan has been developed to address these.

National performance reports

68. Audit Scotland carries out a national performance audit programme on behalf of the Auditor General for Scotland and the Accounts Commission. The findings and key messages of these studies are published in national reports. One report in the last year of direct interest is '*The role of boards*'.

Role of boards

69. Public bodies and their boards have evolved over time. There is great variety in the size and make-up of boards and the roles they have. Accountability can be complex, with chief executives and boards reporting in different ways to the Scottish Government, ministers and the Scottish Parliament. This risks causing confusion about who leads an organisation and is responsible for its decisions.
70. In response to the key messages in the national report, a session on Board review and self-assessment is scheduled for the October Council meeting which will use the checklist assessment contained in the report to determine whether there is a need for further action.