

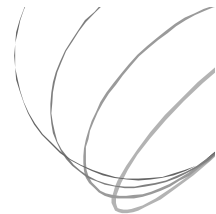
Scotland's Commissioner for Children and Young People

Report on the 2005-06 Audit

December 2006

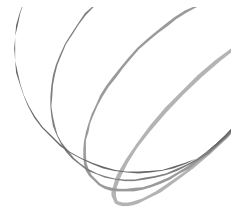


Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Executive and public sector bodies in Scotland are held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



Contents

Executive Summary	1
Introduction	1
Financial Statements	1
Governance	1
Performance Management	1
Introduction	2
Scope of the Audit	2
Financial Statements	3
Our Responsibilities	3
Overall Conclusion	3
Financial Performance	3
Statement on Internal Control	4
Governance	5
Introduction	5



Executive Summary

Introduction

In 2005-06 we audited the financial statements of Scotland's Commissioner for Children and Young People (SCCYP) which included looking at aspects of corporate governance. This report sets out our key findings.

Financial Statements

We have given an unqualified opinion on the financial statements of SCCYP for 2005-06.

Governance

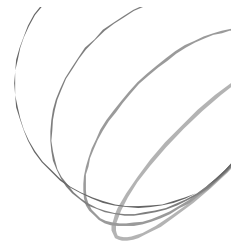
We found that, over the period since it was established, SCCYP had made significant progress towards establishing a sound corporate governance framework; we recommended that SCCYP continue to develop and embed its corporate governance arrangements in line with best practice.

Performance Management

As indicated in the approved audit plan, the audit approach involved aspects of performance audit, but these were dealt with under corporate governance and financial statements, with no specific performance audit work reported.

I would like to record my thanks to management and staff for their co-operation and assistance.

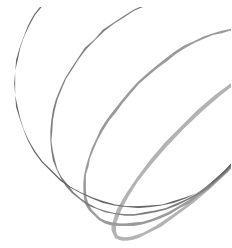
Murdoch McCamley CA,
Senior Audit Manager,
13 December 2006



Introduction

Scope of the Audit

1. This report summarises the findings from our 2005-06 audit of Scotland's Commissioner for Children and Young People (SCCYP). The scope of the audit was set out in our Audit Plan. We summarised our approach as:
 - a review of SCCYP's arrangements for corporate governance;
 - audit of the financial statements and provision of an opinion on whether they present a true and fair view of the financial position of SCCYP and its expenditure and receipts for the year.
2. This report to management sets out our findings from the review carried out. Any weaknesses outlined are only those which have come to our attention during the course of our normal audit work and are not necessarily all the weaknesses which may exist. It is the responsibility of management to determine the extent of the internal control system appropriate to SCCYP. We would stress, however, that an effective internal control system is an essential part of the efficient management of any organisation.
3. The contents of this report have been agreed with relevant officers to confirm factual accuracy.
4. Audit Scotland were appointed as auditors for SCCYP for a two year period (2004-05 to 2005-06). 2005-06 is the final year of a 5 year appointment cycle and RSM Robson Rhodes LLP have been appointed auditors for the 5 years commencing 2006-07. Handover arrangements are in place. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of SCCYP during the course of our appointment. This report will be submitted to the Auditor General for Scotland and will be published on our website at www.audit-scotland.gov.uk.



Financial Statements

Our Responsibilities

5. 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 Scotland's Commissioner for Children and Young People as at 31 March 2006 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; and
- in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

6. We also review the Statement on Internal Control by:

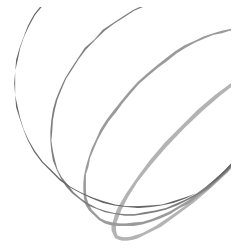
- considering compliance with Scottish Executive guidance;
- considering the adequacy of the process put in place by the Accountable Officer to obtain assurances on systems of internal control; and
- assessing whether disclosures in the Statement are consistent with the information emerging from our normal audit work.

Overall Conclusion

7. We have given an unqualified opinion on the financial statements of SCCYP for 2005-06. We are able to conclude that the financial statements of SCCYP give a true and fair view of the financial position for the period from 1 April 2005 to 31 March 2006 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.

Financial Performance

8. The SCCYP Operating Cost Statement for the year records net expenditure for the financial year of £941,000. This total includes notional charges of £7,000 and depreciation charges of £42,000. The capital expenditure for the year was £52,000. Overall, the total net expenditure of £993,000 was



£224,000 under budget. Similarly, the funding from SPCB at £1,047,000 was within the budget of £1,167,000. As recorded in the Foreword and Operational Review section of the financial statements, the main reason for the outturn being below budget was that a full staff complement was not in place until part way through the year.

Statement on Internal Control

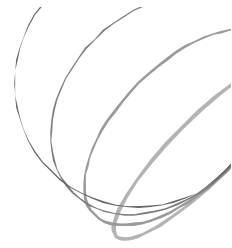
9. This sets out the arrangements established and operated for risk identification and management; proposed future development of arrangements and review of effectiveness of the system of internal control.
10. We are satisfied that the Statement complies with Scottish Executive guidance, that the process 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 emerging from our normal audit work.

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

11. Our responsibilities in relation to the communication of audit matters to those charged with governance are covered in International Standard on Auditing 260 and outcomes against the requirements of the Standard were reported in a letter to the Commissioner on 31 October 2006 and copied to members of the Advisory Audit Board. In this context, our audit has not identified any unadjusted errors that we need to bring to attention. However, we comment on the development of the format of account as indicated below. This position was in line with that reported to the preceding meeting of the Advisory Audit Board.

Format of account

12. A new accounts direction has been issued by the Scottish Ministers following discussions arising from consideration of the 2004-05 accounts and audit process. As a consequence the title of the revenue account has been changed to the Operating Cost Statement. This is in line with the guidance approved by the Financial Reporting Advisory Board in July 2006. This anticipated amendment to guidance on the accounting treatment of grant funding means that from 2006-07 bodies will have to take grant funding of general activity to reserves. The treatment already adopted by SCCYP for 2005-06 is therefore consistent with the new guidance.
13. In line with normal practice, issues were discussed and resolved with officers during the course of the audit of the financial statements. Otherwise, there are no matters of such significance that we wish to record them as part of this report.



Governance

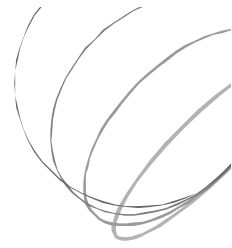
Introduction

14. 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. Three fundamental principles of corporate governance apply equally to all public sector bodies - openness, integrity and accountability.

15. As part of our 2005-06 audit we have been involved in two corporate governance exercises that relate to SCCYP. The first was a **Report to Scottish Parliamentary Corporate Body on Shared Services at Ombudsman/ Commissioners**, which was submitted to the review of Accountability and Governance conducted by the Scottish Parliament's Finance Committee. This review examined the opportunities for Commissioners and the Ombudsman to share services, including the associated issue of office location. We also reviewed the processes for scrutinising the budgets of the Ombudsman/ Commissioners, including an examination of the existing lines of accountability and how they work in practice. The Finance Committee took evidence over May and June and issued its report on 15 September 2006.

16. In addition we carried out an overview of SCCYP corporate governance arrangements covering the overall operational framework for SCCYP and the other Commissioners funded by the Parliament, together with a review of the arrangements that have been established by SCCYP for its own activity. This review examined:
 - the structures and processes for decision making;
 - risk management and systems of internal control;
 - arrangements for the prevention and detection of fraud and irregularities;
 - standards of conduct, integrity and openness; and
 - reporting arrangements and monitoring of the SCCYP's overall financial position.

17. The resulting report recorded the position as at March 2006. In relation to SCCYP's own arrangements we found that SCCYP has made significant progress towards establishing sound corporate governance arrangements, in particular, that SCYYP had:
 - a sound financial memorandum covering its relationship with SPCB



- established an Advisory Audit Board to fulfil the role of audit committee;
- formally adopted an internal audit function;
- undertaken significant consultation exercises with both children & young people and the relevant agencies;
- interim business planning;
- an interim staff handbook including a code of conduct;
- monthly management meetings that consider budget monitoring; and
- annual report and accounts.

18. We recommended that SCCYP further developed their corporate governance arrangements in line with best practice. In particular, SCCYP needed to:

- develop a strategic/corporate plan;
- develop an office manual covering internal procedures and establish a process for formally updating the office manual / internal procedures, including the formal adoption of delegated authority limits);
- following the consultation exercises with children & young people and the relevant agencies, launch proposals which reflect their outcomes;
- establish arrangements to evaluate and review risk management and systems of internal control;
- build on existing arrangements and establish a documented business continuity plan;
- review, and update as appropriate, policies and related guidance covering both the prevention & detection of fraud & irregularities and a formal whistle blowing policy; and
- establish a register of interests for the Commissioner and others (if appropriate) to be available for public inspection.

19. SCCYP has accepted these recommendations and has taken action or proposes to consider the best way forward during 2006-07, as identified in their Business Plan.

20. A further issue that arose from the review of corporate governance arrangements was the corporate status of Commissioners. Non-Departmental Public Bodies (NDPBs) have corporate status, which facilitates, among other things, entering into on-going contracts. This contrasts with the position of the Commissioner, who acts in a personal capacity, with the practical difficulties this can create, including raising questions of personal liability. This topic has been raised with SPCB and it is recommended that the position is pursued further in order to resolve any remaining issues or uncertainties.

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