

# Scottish Commission for the Regulation of Care

Report on the 2005/6 Audit

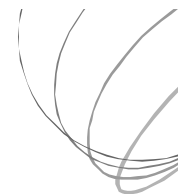
 AUDIT SCOTLAND

October 2006



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# Summary

## Introduction

1. In 2005/6 we audited the Scottish Commission for the Regulation of Care's (the Care Commission) financial statements and we looked at aspects of its governance, in the context of the key business risks facing the organisation. This report sets out our key findings.

## Financial Statements

2. We have given an unqualified audit opinion on the financial statements of the Care Commission for 2005/6, including the regularity of transactions. We also concur with the disclosures made in the Statement on Internal Control.
3. The Care Commission undertook an organisational review in 2005/6 and the additional costs of restructuring have contributed to the deficit for the year of £222,000. This deficit has been funded from the General Fund which has now reduced to £321,000.

## Corporate Governance

4. The Care Commission only approved its risk management strategy at the Board Meeting on 22 August, although a range of risk management policies are in place. Risk management is an important aspect of corporate governance and we will continue to monitor the Commission's progress in implementing this strategy.

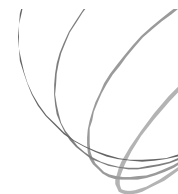
## Looking Forward

5. The Care Commission faces significant challenges in 2006/7 and beyond, including:
  - The implementation of the recommendations emerging from the Administration Review will impact on the delivery of administrative services in 2006/7;
  - The Care Commission intends to implement the final stage of its organisational restructure in the latter part of 2006/07. This will create a new Corporate Services directorate by merging the current directorates headed up by the Director of Finance and Administration and the Director of Human Resources;
  - The outcome of discussions on the Commission's move towards full cost recovery will impact on the fees and charges of the Commission in 2007/8. In 2006/7 the Commission will continue to implement systems to allow for the introduction of full cost recovery; and



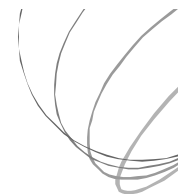
- The introduction of the Regulation for Improvement project which includes a Quality Assessment Framework leading to a more proportionate and targeted regulation with greater participation of service users.
6. We will review these areas and the arrangements put in place by management to address them during the 2006/7 audit.

**Audit Scotland**  
**October 2006**



# Introduction

7. This report summarises the outcomes from our 2005/6 audit of the Care Commission. The scope of the audit was set out in our Audit Planning Framework, which was initially submitted to the Audit Committee on 27 March 2006. The plan set out our views on key business risks facing the Care Commission and described the work we planned to carry out on financial statements and governance.
8. This report is the main output of the audit for the year. Appendix A of this report sets out the key risks highlighted in this report and the action planned by management to address them.
9. This is the fourth year of a four year audit appointment. As a result of a 5 yearly audit appointment review Audit Scotland have been re-appointed as the external auditors of the Care Commission for the next 5 years. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the Care Commission during the course of our audit work. This report will be submitted to the Auditor General for Scotland and will be published on our website, [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).



# Organisational Risks

10. In our audit plan, we identified three main areas of risk for the Care Commission. We also described longer term planning issues which will impact on the Commission and our audit in the future. In this section, we describe these risks and our view on their current status. We also comment on some longer term planning issues.

## Governance

11. In our plan we highlighted the following priority and risk areas relating to Corporate Governance within the Care Commission:

- the Organisational Review which was undertaken in 2004/5, but impacted on the delivery of services in 2005/06;
- the Commission's move towards full cost recovery; and
- the accounting implications of the introduction of the Financial Reporting Manual (FReM).

## Organisational Review

12. The Commission completed a wide ranging Organisational Review in 2004/5. The restructuring of the organisation was implemented in 2005/6. The main impact of the review has been the re-organisation of senior management within the Commission and the removal of a layer of management within local offices. The main changes to the job roles were effective from August 2005. It is noted that the implementation of the Organisational Review has been successfully managed with minimal impact on services provided.

## Full Cost Recovery

13. We noted in our 2004/5 report that the Commission was to become self funding by 1 April 2006 and the Commission submitted a report detailing progress on full cost recovery to its sponsor department, the Scottish Executive Health Department (SEHD) in December 2005. This resulted in the sponsor department delaying indefinitely the date for full self funding status. The sponsor department asked the Health Committee of the Scottish Parliament to look at full cost recovery as part of a wider Care Inquiry which encompassed free personal care, the regulation of care and direct payments.

14. The Health Committee has now reported its findings into the Care Inquiry and included a recommendation that the Scottish Executive should remove the self financing requirement for the regulation of care services for the elderly. The sponsoring department have reiterated the policy

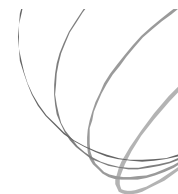


decision that the Commission should be self funding, for all services apart from early years and childminding services, but further guidance on the practicalities of such a move has yet to be received.

15. Internal Audit carried out a review of the Commission's proposal for full cost recovery. This review was completed in 2005/6 and provided substantial assurance that the system being operated is basically sound. Two recommendations were set out in the report and will be implemented by the Care Commission.
16. The Commission have continued to progress systems to allow for the collection of data to inform the full cost recovery process. A Time Recording System (TRS) has been purchased and the roll out of the system is due to be implemented in 2007. We will continue to monitor this area.

### **Implementation of the revised reporting requirements of the FReM**

17. In 2005/6 the Financial Reporting Manual (FReM) was introduced to provide guidance for all public sector bodies on the format and content of the annual report and accounts. We reviewed the annual report and accounts of the Commission to ensure that they have been produced in line with the FReM requirements and can confirm that the FReM requirements have been implemented.



# Financial Statements

## Our Responsibilities

18. We audit the financial statements and give an opinion on:
- whether they give a true and fair view of the financial position of our client and its expenditure and income for the period in question;
  - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements; and
  - the regularity of the expenditure and receipts.
19. We also review the statement on internal control by:
- considering the adequacy of the process put in place by the Chief Executive as Accountable Officer to obtain assurances on the overall system of internal control; and
  - assessing whether disclosures in the statement are consistent with our knowledge of the organisation.

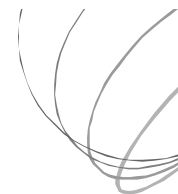
## Overall Conclusion

20. We have given an unqualified opinion on the financial statements of the Care Commission for 2005/6.

## The Care Commission's Financial Position

21. The Care Commission is a non-departmental public body sponsored by the Scottish Executive Health Department. The Commission's income and expenditure account shows total income of £31.926m and operating expenditure of £30.745m resulting in an operating surplus before interest for the year of £1.181m. The surplus was used to fund the restructuring costs arising from the organisational review. Once these costs have been accounted for the Commission showed a deficit for the year of £222,000. This deficit has been funded from the General Fund which has now reduced to £321,000.
22. The major element of income was grant in aid and grant funding from the Scottish Executive Health Department (£16.699m) plus £1,199m brought forward from 2004/5. Other operating income of £14.028m comprises mainly of fee income from service providers. The largest elements of expenditure were staff costs of £22.487m and other operating costs of £8.258m. The total costs of restructuring amounted to £1.798m.

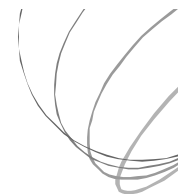




## The Issues Arising from the Audit

23. We reported the following main issues to the Audit Committee on 9 October 2006:

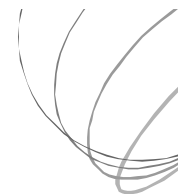
- **Payroll:** We noted that the recommendations contained within the 2003/4 and 2004/5 annual reports in relation to evidencing payroll reconciliations and exception reports have not been fully implemented in 2005/6. In addition, the necessary controls relating to starters' forms have not been adhered to in all instances. From our audit sample we found that one form had not been authorised and there was one instance where the starter authorised the form. As payroll accounts for the major element of expenditure within the Care Commission, it is essential that appropriate controls are in place to manage the system.  
**Resolution:** Procedures will be put in place to ensure that reports are signed and countersigned. The Finance Manager and HR Manager will undertake quarterly checks to ensure compliance with the procedure.
- **Fixed Assets:** In 2004/5 we noted that capital expenditure was only being identified at the year end with approval from the Sponsor department being sought at this time. This was highlighted as a risk and there is a possibility that the Sponsor department may not approve this expenditure. In 2005/6 we noted again that the Care Commission did not request approval for the transfer of expenditure to capital until after the year end.  
**Resolution:** Authorisation for capital spend will be sought from the Sponsor department prior to the year end.
- **Fixed Assets:-**The Fixed Assets Policy requires to be updated to include guidance on the revaluation and indexation of assets.  
**Resolution:** The Fixed Assets Policy will be updated.
- **Equal Pay Claims:** During 2005/6, a number of public sector bodies were at risk of facing equal pay claims from their employees. The Care Commission anticipate that the job evaluation exercise which is being undertaken will negate the risk of equal pay claims impacting financially on the organisation.  
**Resolution:** The job evaluation scheme is intended to address the issue of equal pay claims. A reference is included in the letter of representation.



## Statement on Internal Control

24. The Statement on Internal Control (SIC) provided by the Accountable Officer reflects the main findings from both external and internal audit work. We have noted that the statement is not inconsistent with other information we are aware of from our audit. The statement refers to areas of internal control that require to be strengthened or developed further including:

- An administration review commenced during 2005/6 will be concluded in 2006/7. This review will look at the administrative processes and the role of administrative staff within the organisation;
- A formal risk management strategy document was developed and submitted to Board members in draft form during 2005/6. The strategy, revised to incorporate member's comments, was approved at the August Board meeting and will be implemented during 2006/7; and
- The separate Finance and Human Resources Committees are to be merged to form a Finance and Human Resources Committee. This will allow a more integrated approach to efficiently and effectively managing the Care Commission's resources.



# Governance

## Introduction

25. This section sets out our main findings arising from our review of your corporate governance arrangements (including financial aspects).

## Corporate Governance

26. Our work on corporate governance focused on systems of internal control; prevention and detection of fraud and irregularity; standards of conduct and the Care Commission's financial position.
27. We relied on the work of Internal Audit to give us assurance in these areas to ascertain what governance arrangements are in place to manage them. We found that governance arrangements in these areas were generally well developed.

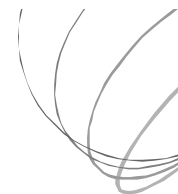
## Risk Management

28. The Commission has continued to develop risk management arrangements. However, we noted that the draft strategy was not formally approved by the Board in 2005/6, but we are pleased to see that it was formally approved at the August Board meeting. We will continue monitor the implementation of the strategy.

## Payroll Controls

29. We noted that the recommendations contained in the 2003/4 and 2004/5 annual report in relation to evidencing payroll reconciliations and exception reports have not been fully implemented in 2005/6. Whilst these reports are being prepared and reviewed on a monthly basis, they are not being evidenced as such. In addition, the necessary controls relating to starters forms have not been adhered to in all instances. From our audit sample we found that one form had not been authorised and there was one instance where the starter authorised the form. As payroll accounts for the major element of expenditure within the Care Commission, it is important that controls are in place to manage the system.

**Risk Plan 1 & 2**



## Fixed Assets Expenditure

30. We noted in 2004/5 that capital expenditure was only being identified at the year end and approval for this expenditure was being sought from the sponsor department at this time. This was raised in the annual report as an audit risk as the sponsoring department may not allow for this expenditure to be transferred. In 2005/6 we noted that approval for the transfer of expenditure to capital was again not made until after the year end.

**Risk Plan 3**

31. The Fixed Assets policy does not include guidance on the revaluation and indexation of fixed assets and should be updated to include reference to these areas.

**Risk Plan 4**

## Equal Pay Claims

32. During the course of the 2005/6 year it became apparent that a number of public sector entities were at risk of facing large equal pay claims from employees. On discussion it has been established that, whilst the Commission has had one equal pay claim to date, it anticipates that the job evaluation exercise currently being undertaken will negate the risk of further claims. We will keep this area under review.

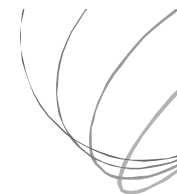


# Looking Forward

33. The Care Commission faces significant challenges in 2006/7 which include:

- The implementation of the Administration Review recommendations in 2006/7.
- The implementation of the final stage of its organisational restructure in the latter part of 2006/07 will create a new Corporate Services directorate by merging the current directorates headed up by the Director of Finance and Administration and the Director of Human Resources.
- The continuing impact of the move to self funding status, including the introduction of the Time Recording System and policy decisions made by the sponsoring department.
- The introduction of the Regulation for Improvement project which includes a Quality Assessment Framework leading to a more proportionate and targeted regulation with greater participation of service users.

These areas, and the controls put in place by management to address the issues, will be subject to audit review during 2006/7.



# Appendix A: Action Plan

## Key Risk Areas and Planned Management Action

Action Point	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
1	29	<p>Payroll reconciliations and exception reports are not being signed and countersigned as evidence of review.</p> <p>There continues to be a risk that expenditure is not being fully controlled.</p>	<p>The Finance Manager will check control account reconciliations are being appropriately signed and countersigned on a quarterly basis.</p>	Finance Manager	Immediate
			<p>The HR Manager will do likewise for the payroll exception reports.</p>	HR Manager	Immediate
			<p>In addition there will be an attempt to identify a method that evidences that a check has been made that does not require a hard copy print of the reconciliation.</p>	Finance Manager	
2	29	<p>Starters forms should only be authorised by the appropriate line manager, thus reducing that risk that inappropriate staff are added to the payroll system.</p>	<p>Measures are now in place to ensure forms are appropriately authorised. HR staff responsible for inputting information to the HR/payroll system will check the forms to ensure proper authorisation prior to input.</p>	HR Manager	Completed
			<p>The content and layout of the forms is being reviewed and this will assist in addressing this issue.</p>	HR Manager	31 Dec 06



Action Point	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
3	30	<p>The sponsoring department requires to approve capital expenditure but this is not identified until the year end.</p> <p>By identifying these items at the year end the Commission incurs the risk that the sponsoring department may not approve this as capital expenditure.</p>	<p>There is now a procedure in place that requires a capital plan to be produced and monitored alongside the revenue budget. This capital plan is submitted to the Finance and HR Committee for consideration, is approved by the Board and then submitted to the Sponsor.</p> <p>The capital plan for 2006/07 was approved by the Board at its meeting of 22 August 2006.</p>	Director of Finance and Administration	Completed
4	31	<p>The Fixed Asset policy does not include guidance on revaluation and indexation. The lack of guidance on this area leads to a risk that assets may be incorrectly treated.</p>	<p>Fixed assets were subject to indexation for the first time in 2005/06 in accordance with the new FReM that withdrew the option to use historic cost.</p> <p>The Care Commission's Fixed Asset policy will be revised in accordance with this change.</p>	Finance Manager	31 Dec 06