

Scottish Building Standards Agency

Report on the 2005-06 Audit

October 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



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Executive Summary

Introduction

In 2005-06 we audited the financial statements of the Scottish Building Standards Agency (SBSA) and looked at aspects of performance management and governance. This report sets out our key findings.

Financial Statements

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

At the planning stage we identified eight main audit issues and risks which informed our audit procedures. From our audit work we can conclude that these issues and risks are being satisfactorily managed by SBSA.

Governance

SBSA's corporate governance and control arrangements operated satisfactorily in the period under review as reflected in the Statement on Internal Control. We have also found the work of the internal audit service to be satisfactory and continue to place formal reliance on its work.

Performance Management

During 2005-06 we completed a baseline analysis of larger organisations' management arrangements for achieving Best Value and an overview of their management arrangements in relation to the requirements of the Scottish Executive's Efficient Government Initiative. SBSA was not included in either of these exercises.

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

Alastair Reid, Senior Audit Manager, 27 October 2006



Introduction

Scope of the Audit

1. This report summarises the findings from our 2005-06 audit of SBSA. The scope of the audit was set out in our Audit Plan which was submitted to SBSA in March 2006. This plan described the work we planned to carry out on financial statements, governance and performance.
2. This report to management sets out our findings from the review carried out. The weaknesses outlined are only those which have come to our attention during the course of our normal audit work and are not necessarily, therefore, all the weaknesses which may exist. Although we include a number of specific recommendations in this report to strengthen internal control, it is the responsibility of management to determine the extent of the internal control system appropriate to SBSA. 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. This report will be submitted to the Auditor General for Scotland and will be published on our website at www.audit-scotland.gov.uk.

Outcome on Issues and Risks Identified in the Audit Plan

5. Eight audit issues and risks were identified at the planning stage. The outcome against planned activity is summarised at Appendix A. We can conclude from the results of our work on these issues and risks that they are being satisfactorily managed by SBSA and do not indicate areas of material concern.

Prior Period Follow Up

6. Seven issues were identified in our Report on the Audit for the period from 21 June 2004 to 31 March 2005. We are satisfied that our recommendations have been implemented.

Management Action

7. Audit recommendations, together with management comments, on those areas where further improvements could be achieved are included in the action plan at Appendix B of this report.



Financial Statements

Our Responsibilities

8. 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 the Scottish Building Standards Agency as at 31 March 2006 and of its net operating cost, 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 Public Finance and Accountability (Scotland) Act 2000 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.

9. 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
- assessing whether disclosures in the Statement are not inconsistent with the information emerging from our normal audit work.

Overall Conclusion

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

11. Following discussion with the head of the Corporate Team, a date of 3 July 2006 was agreed for the provision of the accounts for audit. Accordingly audit work was scheduled to achieve a certification date that would permit the laying of the accounts before the Scottish Parliament by the end of



October. Accounts were duly submitted on the agreed date and the completion timetable largely achieved.

Financial Performance

12. SBSA's operating cost statement for the year records net operating costs of £1.477 million.

Statement on Internal Control

13. A draft Statement on Internal Control was presented to the Audit Committee on 25 September 2006 and signed by the Chief Executive on 11 October 2006. This set out the arrangements operated for risk identification and review, management of identified risks and assurance of effectiveness.

14. We are satisfied that the Statement complies with Scottish Executive guidance, the process put in place by the Accountable Officer to obtain assurances on systems of internal control is adequate and the contents of the Statement are not inconsistent with the information emerging from our normal audit work.

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

15. My 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 Accountable Officer and presented to the Audit Committee on 25 September 2006.

16. £4,000 of prepayments and £2,000 of accruals were omitted from the accounts. Audit Scotland agreed that these misstatements were not sufficiently material to require adjustments to the account. There are no other significant judgements included in the accounts on which we wish to comment.

17. As part of the audit process we identified one accounting adjustment that was required:

- Rent expenditure in 2004-05 had not taken account of a £14,000 prepayment. This had the effect of understating operating costs and long term rent creditors in 2005-06.

18. Minor errors identified that did not require adjustment included:

- Fixed assets are understated by £1,000 as VAT on a fit-out invoice was incorrectly treated as recoverable;



- Prepayments are understated by £4,000 for professional subscriptions paid in 2005-06 which relate to 2006-07; and
- Creditors are understated by £2,000 for invoices paid in 2006-07 for goods or services provided in 2005-06.

19. There are no other significant points arising out of the letter.

Issues Arising

20. We would like to draw attention to the following issues arising from our audit of the financial statements:

- comprehensive year end accounts preparation procedures should be developed and formalised in time for the 2006-07 accounts

Action point 1

- income should be credited to an income code on receipt

Action Point 2

- reconciliations of payroll reports should be evidenced.

Action Point 3



Governance

Introduction

21. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of an organisation. This section sets out the main findings arising from our review of SBSA's corporate governance as it relates to:

- fraud prevention and detection arrangements
- systems of internal control
- review of internal audit.

Overall Conclusion

22. During our audit we reviewed the governance systems operating at SBSA. In general, we are content that they are soundly based.

Fraud Prevention and Detection Arrangements

23. SBSA's arrangements for preventing and detecting fraud and corruption were assessed during the audit and found to be satisfactory. No frauds were identified by SBSA in 2005-06.

Systems of Internal Control

24. See paragraph 20 for recommendations on systems of internal control.

Review of Internal Audit

25. SBSA recognises that internal audit is a key element of the internal control system set up by management. A strong internal audit function is necessary to ensure the continuing effectiveness of the internal control system that has been established. To maximise the reliance that external audit can place on internal audit and to avoid duplication of effort, the adequacy of internal audit is assessed each year.

26. Internal audit is provided by Scottish Executive Audit Services. Audit Scotland's Scottish Executive audit team carried out a review of the Executive's arrangements for internal audit as part of 2004-05 audit work. As part of 2005-06 audit work they have assessed Audit Services' progress in implementing the agreed action plan from 2004-05. Their review of Audit Services' working paper



files confirms that they continue to comply with Government Internal Audit Standards in adopting a risk based audit approach in planning and undertaking their work. As a result we intend to place reliance on a number of aspects of Audit Services' work during 2005-06 as was anticipated in our audit plans.

27. We planned to place formal reliance on the work of internal audit, in terms of the International Statement on Auditing 610 (considering the work of Internal Audit), for our financial statements audit work, in the following areas:
 - arrangements for setting and monitoring budgets, making payments and collecting income
 - financial reporting
 - procurement
 - travel and subsistence payments.
28. A report was produced by Internal Audit during 2005-06. We reviewed the report. None of the observations and related risks precluded planned assurance from being taken for our financial statements audit.
29. The Head of Internal Audit provided the Chief Executive with substantial assurance on the adequacy and effectiveness of the system of internal control within the Agency.



Performance Management

Introduction

30. This section covers our assessment of the way in which organisations secure value for money in the use of their resources. This year we focussed on two main areas:

- Efficient Government
- Best Value.

Efficient Government

31. The Efficient Government initiative is a 5 year programme with the aim of reducing waste, bureaucracy and duplication in Scotland's public sector. The primary objective is to deliver the same services with less money or to enable frontline services to deliver more or better services with the same money. The Efficient Government Plan sets targets to achieve of £745 million (rising to £900 million) of cash-releasing savings and £300 million (rising to £600 million) of time-releasing savings, by 2007-08.

32. During 2005-06 Audit Scotland completed a management arrangements diagnostic on Efficient Government activities across a number of Central Government organisations. It aimed at providing baseline information on arrangements across a range of Efficient Government related topics. We concentrated on the largest organisations and did not include SBSA.

33. A detailed position statement of the sample of public sector organisations in Scotland is being produced by Audit Scotland and will be issued shortly.

Best Value

34. There is no statutory duty of Best Value in the wider public sector in Scotland (the Scottish Executive and its Executive Agencies, Executive NDPBs, and the NHS). Instead, the Scottish Executive issued high level guidance in May 2003, followed by more detailed draft secondary guidance in August 2003. This duty can be described as:

- to make arrangements to secure continuous improvement in performance (while maintaining an appropriate balance between quality and cost)
- to have regard to economy, efficiency and effectiveness, and the equal opportunity requirements
- to contribute to the achievement of sustainable development.



35. In May 2005, Ministers decided that they would not bring forward legislation which extends Best Value in the wider public sector. However, as Ministers do wish to encourage and embed the principles of Best Value across the wider public sector, revised guidance was issued in May 2006.
36. For 2005-06 Audit Scotland reviewed how well advanced arrangements are in place by public bodies across the central government sector to demonstrate Best Value, and to identify areas of good practice. As part of this review we completed a Best Value analysis to establish baseline information on the management arrangements in place within the larger organisations. The overall aim of this analysis was to establish the organisations' arrangements for taking forward the Best Value agenda and demonstrating continuous improvement. We concentrated on the largest organisations and did not include SBSA.
37. The results of the review across the wider public sector are currently under review and will be published by Audit Scotland during 2006.

National Studies

38. The Central Government team within the Performance Audit division of Audit Scotland has recently published on behalf of the Auditor General a study entitled "Relocation of Scottish Executive Departments, agencies and NDPBs".
39. The report notes that 28 public sector bodies have been, or will be, either relocated or established under the Scottish Executive's relocation policy, introduced in 1999. 1,653 posts have been transferred from Edinburgh and a further 1,164 posts have been created outside the city. Audit Scotland examined the implementation of location and relocation in Scotland. It reviewed the process and management of relocation and looked at evidence of the impact of the moves. Around 34,000 public sector employees (six per cent of the public sector workforce) are in posts which could be considered for relocation under the policy.
40. Audit Scotland found that most of the reviews arose from the creation or restructuring of organisations, or from breaks in property leases. Only two of 38 reviews were the result of potential efficiency improvements identified by the organisations in their business plans. In most cases, it was not clear whether relocation would deliver wider policy objectives.
41. The Auditor General for Scotland, Robert Black said: "The Executive has plans to evaluate the impact of the policy but little has been done to date. For this reason it is difficult to determine whether relocations are good value for money."



42. Key findings in the report include that:

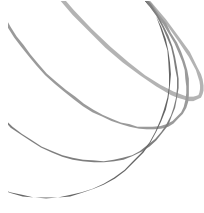
- there is some limited evidence of efficiency gains from relocation, such as lower staff turnover and reductions in sick leave in specific relocations, but wider benefits have not so far been measured
- the estimated cost per job for the relocation of individual organisations range between a saving of £33,000 per job and a cost of £45,000 per job
- the Executive does not have explicit targets for relocation and it has not identified areas of the country expected to benefit from its policy
- In some cases, new or revised criteria to identify potential sites for relocation were introduced late in the review process.

43. Robert Black said: “I would encourage the Scottish Executive to define more clearly the measures of success that it is applying to its relocation policy and to develop its plans for evaluating the benefits of relocation.”

44. SBSA was one of the organisations surveyed and details were provided in Appendix 3: Case study narratives. No comments were made on the process or management of the relocation to Livingston.

Appendix A: Outcome on Issues and Risks Identified in the Audit Plan

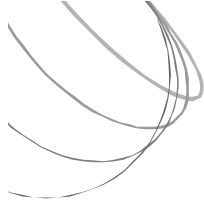
Risk	Outcome
<p>There is a risk that finance staff may not benefit from the latest accounting information as a result of remoteness of the SBSA from the Scottish Executive.</p>	<p>SBSA receive accountancy and other guidance updates by email and also from Communities Scotland.</p>
<p>SBSA does not have a dedicated accounts preparation team. It is expected that accounts preparation will be assisted by the Financial Accountant at Communities Scotland.</p>	<p>Arrangements appeared to work well with the draft accounts submitted in line with the agreed timetable. Omission of small value accruals and prepayments could have been avoided if year end procedures for SBSA had been formalised and followed. This is particularly relevant where responsibility for accounts preparation is shared between two organisations.</p> <p style="text-align: right;"><i>See paragraph 19 and action plan point 1</i></p>
<p>Changes to the accounts format, particularly additional information for the Operating and Financial Review and the Remuneration Report in the Annual Report, are required under the Financial Reporting manual (FRoM).</p>	<p>Draft accounts were prepared by Communities Scotland who had previously prepared their own accounts in line with the new requirements.</p>
<p>The accounting records are maintained by the Scottish Executive on the Scottish Executive Accounting System (SEAS). Last year a mis-posting was identified that had not been picked up by SBSA's budgetary control systems.</p>	<p>We obtained evidence that SBSA are monitoring SEAS prints. Mispostings have been identified and corrected.</p>
<p>The Audit Committee was only established in April 2005. The effectiveness of the audit committee has to be established as it is still at an early stage of development.</p>	<p>The Audit Committee continues to meet twice a year. Senior Audit Manager Alastair Reid gave a presentation in March 2006 on the role of Audit Scotland and will to give a presentation on internal control and the role of audit committees in March 2007.</p>



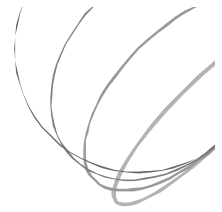
Risk	Outcome
<p>Internal audit coverage may not be sufficiently comprehensive due to the timing of the audit and the evolving nature of SBSA.</p>	<p>Internal Audit review SBSA every year which is adequate for a body of its size.</p>
<p>Previously SBSA's only income was from the sale of publications. It is possible that a new income stream (consultancy) may be operating during 2005/06.</p>	<p>As at summer 2006 income is still only from sale of publications. SBSA had been posting income as a credit to an expenditure code and transferring to income at year end. <i>See paragraph 20 and action plan point 2</i></p>
<p>SBSA is still undergoing a significant recruitment programme. There is a risk to the cascade of knowledge as the proportion of staff that is new to the organisation is high.</p>	<p>SBSA have recruited an Assistant Chief Executive. SBSA have recruited an extra corporate team staff member which has improved supplier and sales invoice processing, SEAS monitoring and filing. Corporate team staff continue to attend finance-related training.</p>

Appendix B: Action Plan: Recommendations for Further Improvements

Action Point	Para. No	Issue, Risk and Audit Recommendation	Importance	Management Response	Responsible Officer	Target Date
1	20	<p>Year end procedures</p> <p>The draft account was prepared by Communities Scotland Finance team in conjunction with SBSA. We noted the omission of a small number of prepayments and accruals which could have been identified manually by SBSA during invoice processing.</p> <p>There is a risk of delays or inaccuracies in accounts preparation where responsibilities are shared between two organisations. Problem areas could include identification of prepayments and accruals when processing invoices, circularisation of staff for details of any items provided to or by SBSA where not yet invoiced, reconciliation of IT inventory to fixed asset register and SEAS ledger and identifying assets disposed of in the year, and review of long outstanding debtors and consideration for write-off</p> <p><i>We recommend that financial year end procedures are drafted for SBSA together with Communities Scotland Finance.</i></p>	Medium	<p>Accept</p> <p>We will introduce financial year end procedures as suggested.</p>	Mark Rae	End January 2007



Action Point	Para. No	Issue, Risk and Audit Recommendation	Importance	Management Response	Responsible Officer	Target Date
2	20	<p>Accounting for Income Income from sales of publications has been credited to the publications expenditure code during the year and the balance transferred to income at year end. There is a risk that accounting for income is not timely and that management reviews may not operate effectively during the year. There is also a risk that all income may not be identified. <i>We recommend that "sales of publications" is used for this income during the year. New income codes should be set up in due course for new types of income.</i></p>	Medium	Accept	Mark Rae	As and when required
3	20	<p>Payroll reconciliation Payroll reports are reconciled to locally held information by SBSA corporate team but this is not evidenced by signing the reports. There is a risk that reconciliations may not occur. Ensuring formal sign offs expedites management control reviews. <i>We recommend that payroll reports are signed to confirm that they have been reconciled.</i></p>	Medium	Accept	Mark Rae	November 2006



Appendix C: Auditor General for Scotland published reports

Auditor General for Scotland

Relocation of Scottish Executive departments, agencies and NDPBs (published 21/9/2006)

1,653 posts have been transferred from Edinburgh and a further 1,164 posts have been created outside the city. Audit Scotland found that most of the reviews arose from the creation or restructuring of organisations, or from breaks in property leases. Only two of 38 reviews were the result of potential efficiency improvements identified by the organisations in their business plans. In most cases, it was not clear whether relocation would deliver wider policy objectives.

Accounts Commission and Auditor General for Scotland

Community planning: an initial review (published 16/06/2006)

Community planning partnerships have made progress but need to do more to show how their work is improving public services. The report also says that their complex remit makes it difficult for them to achieve their aims and calls on the Executive to support community planning more effectively.

Accounts Commission and Auditor General for Scotland

No hiding place: the National Fraud Initiative in Scotland (published 17/05/2006)

Scotland's councils have worked with other public bodies to identify £15m worth of fraud and errors in a national detection exercise.

Auditor General for Scotland

Scottish Further Education Funding Council: A progress report (published 26/01/2006)

The Scottish Further and Higher Education Funding Council (Funding Council) is making progress on a number of fronts, according to a report published today by the Auditor General for Scotland.

Auditor General for Scotland

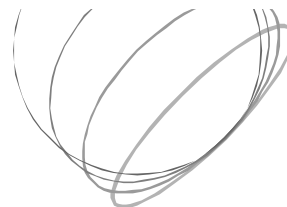
Leadership development: How Government Works (published 17/11/2005)

Scotland's public sector has good examples of investment in leadership but many individual organisations do not have clear policies and most are unable to link the spending to improvements in their performance. Public bodies need to do more to track the £5m they invest each year in leadership development and make sure it results in better managed organisations and better public services, says Audit Scotland.

Auditor General for Scotland

Scottish Executive: supporting new initiatives. How Government Works (published 10/11/2005)

Last year the Scottish Executive launched new initiatives amounting to £1.4 billion. The management of these projects is generally sound, but making changes could help to improve control of the funding and allow better assessment of whether the money is helping to achieve policy aims.



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