

Bòrd na Gàidhlig

Report on the 2006/07 Audit



November 2007



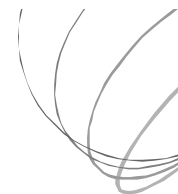
Bòrd na Gàidhlig

Report on the 2006/07 Audit



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Executive Summary

Introduction

In 2006/07 we audited the financial statements of the Bòrd na Gàidhlig, the first year of this organisation as a Non Departmental Public Body (NDPB). We also reviewed aspects of performance management and governance. This report sets out our key findings.

Financial position

We have given an unqualified opinion on the financial statements of the Bòrd for 2006/07.

The Bòrd was established under the Gaelic Language (Scotland) Act 2005 and assumed the assets and liabilities of its predecessor body Bòrd na Gàidhlig (Alba) Limited on 3 April 2006. All financial transactions were accounted for in the financial statements of the predecessor body until that date.

A new requirement of the 2006/2007 Government Financial Reporting Manual (FReM) is that grant-in-aid is credited to reserves. This has resulted in public bodies showing an excess of expenditure over income with matching government funding being credited to reserves. In 2006/07 the Bòrd had an excess of expenditure of £4.455 million (£2.822 million in 2005/2006 restated). The grant-in-aid credited to reserves for the year was £4.439 million (2005/2006: £2.879 million).

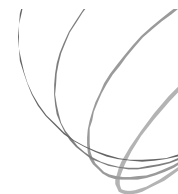
Performance

In its first year the Bòrd achieved two of the three initial targets set by its sponsor Department, i.e. to publish a National Plan for Gaelic and Guidance on the Development of Gaelic Language Plans, both of these were published during 2007. A third target, to prepare monthly accounts for Gaelic grants has not yet been progressed although the Bòrd has developed forecasting and budget reporting, which it continues to improve.

The Bòrd is still developing its own performance measures and consideration is being given to building on performance measures developed by similar bodies in Wales and Ireland. This approach would support longer term development and benchmarking performance measures with these organisations in future.

Governance

Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. During financial year 2006/2007 we carried out a review of the governance arrangements within the Bòrd, a number issues arose out of this review which were reported to management.



Overall we found that the corporate governance and control arrangements for the Bòrd could be improved and this was reflected in the Statement of Internal Control which forms part of Report and Accounts for the year ended 31 March 2007. There remains a need to develop and implement written policies and procedures, schemes of delegation, segregation of duties, formalisation of policies for fraud and corruption, and the procurement of goods and services, as well as the development of a performance monitoring framework particularly in relation to funding awards.

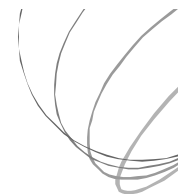
Looking forward

As part of the 2007/2008 audit we will be reviewing the progress that the Bòrd has made in strengthening its corporate governance framework. The Bòrd is considering the development of performance measures that demonstrate how effective, efficient and economically its objectives are being delivered by organisations that they enter into partnering arrangements with. During 2007/2008 we plan to monitor the progress made on the development of such measures.

The Bòrd has instigated a number of reviews to identify efficiency and economy savings and has met with other government bodies to discuss accommodation requirements, shared support services and procurement arrangements.

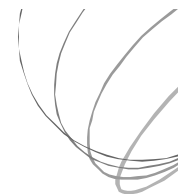
Over the year we will also be developing and refining our approach to the audit of public bodies' arrangements to secure economy, efficiency and effectiveness in the use of resources, as this one of our key objectives as auditors, set out within the new Code of Audit Practice approved by the Auditor General. This will inform our ongoing work to develop an approach to the audit of Best Value across the Scottish public sector. We intend to consult with both clients and stakeholders at key stages of these initiatives.

Audit Scotland
November 2007



Introduction

1. This report summarises the findings from our 2006/07 audit of Bòrd na Gàidhlig. The scope of the audit was set out in our Audit Plan, which was presented to the Audit Committee on 7 March 2007. This plan described the work we planned to carry out on financial statements, performance and governance.
2. This is the first year of a five year audit appointment. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the Bòrd during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website, www.audit-scotland.gov.uk.



Financial Statements

3. In this section we summarise key outcomes from our audit of the Bòrd's financial statements for 2006/07, and comment on the key financial management and accounting issues faced.

Our responsibilities

4. We audit the financial statements and give an opinion on:
 - whether they give a true and fair view of the financial position of the Bòrd 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
 - the regularity of the expenditure and receipts.
5. 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 systems of internal control
 - assessing whether disclosures in the statement are consistent with our knowledge of the Bòrd.

Overall conclusion

6. We have given an unqualified opinion on the financial statements of the Bòrd for 2006/07.

Financial position

2006/07 Outturn

7. A new requirement of the 2006/2007 Government Financial Reporting Manual (FReM) is that grant-in-aid is credited to reserves. This has resulted in public bodies showing an excess of expenditure over income with matching government funding being credited to reserves. In 2006/07 the Bòrd had an excess of expenditure of £4.455 million (£2.822 million in 2005/2006 restated). The grant-in-aid credited to reserves for the year was £4.439 million (2005/2006: £2.879 million).
8. The increase in grant-in-aid received in 2006/2007 compared to the previous year was due to a £1.4 million grant for implementing the Gaelic Language Act Implementation Fund. £1.14 million of this grant was spent on implementation fund activities, £ 131,000 funding the former Chief Executive's retirement package, £20,000 on other projects, and the balance of £109,000 has been carried forward

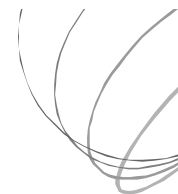


to be spent on future activities. The Scottish Government's agreement was sought and obtained for the expenditure incurred on non-implementation fund activities.

9. The Bòrd's balance sheet at 31 March 2007 showed net assets of £181,600 (2005/2006 £191,800). This decrease in net assets was mainly caused by the impact of the deficit on the pension scheme from £27,800 to £2,000 at the end of 2007.

Issues arising from the audit

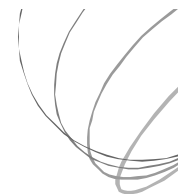
10. We reported the following issues to the Audit Committee on 3rd October 2007:
11. **Preparation and submission of the accounts for audit** – Draft accounts were originally timetabled for submission to audit at the end of April 2007. However, following the retirement of the former Chief Executive in March 2007, the Finance and Administration Manager was appointed as interim Chief Executive. As a consequence of the additional workload associated with this role, the original timetable was not met.
12. A draft set of accounts was provided for audit at the end of May 2007 however these were incomplete in a number of respects including the board members report, statement on internal control and a number of disclosure requirements. Some audit work was undertaken on the trial balance during July, and a revised date of 31 August was agreed for provision of a complete set of draft accounts. The revised accounts were received on 3 September and were subject to audit. A number of amendments were made to the accounts to reflect issues arising from the audit, along with a number of presentational changes and information disclosures all of which are now reflected in the accounts.
13. A review meeting is planned between the audit team and management to reflect on the 2006/07 accounts process and identify areas for improvement for 2007/08. This will support the development of a detailed timetable for the 2007/08 accounts.
14. **Statement of Internal Control** – As part of the accounts preparation process, the Chief Executive is required to prepare and sign a statement on the system of internal control in place within the organisation during the financial year. We then review the disclosures for completeness and consistency with information available to us during the course of the audit. The statement is then considered by the Audit Committee and the Board as part of the accounts approval process.
15. The draft statement included within the draft accounts presented to the Audit Committee on 3 October included some references to processes put in place; however it does not make it clear these were not in place for the full financial year. The statement also omitted reference to system weaknesses identified during the financial year, and planned action to address these issues.



16. A revised statement on internal control was prepared subsequent to the Audit Committee and was reviewed and agreed by the Committee and the Bòrd prior to approval of the 2006/07 accounts.
17. **Retirement of the Chief Executive** – Following discussions with the Chair of the Board, the former Chief Executive retired in March 2007. As part of the early retirement package, a payment for loss of office was made on termination of contract, along with an enhancement to pension arrangements. The compromise agreement covering the arrangements includes a confidentiality clause that prevents the employee disclosing the terms of the agreement, except where there is a legal duty.
18. The Bòrd incurred costs relating to the enhancement of pension arrangements as part of the compromise agreement with the former Chief Executive. Good practice on the handling of public funds dictates that organisations should make appropriate disclosures in addition to those required by generally accepted accounting practice. We agreed with the Bòrd on appropriate disclosure to be included in the remuneration report and notes to the accounts in relation to the costs incurred as part of the early retirement.
19. The Government Financial Reporting Manual (FReM) requires bodies to disclose certain information on senior managers pay and pension entitlements within the remuneration report, in line with the Companies Act. In Scotland, prior consent is required from named individuals to disclose this information. We were informed that consent had been obtained from the former Chief Executive relating to the disclosures for 2006/07, and information included in the 2006/07 accounts reflected the appropriate disclosures as required by FReM.
20. **Unadjusted errors:** A number of presentational adjustments have been reflected in the revised accounts. There are no unadjusted errors.

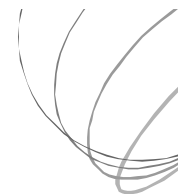
Statement on internal control

21. The Statement on Internal Control provided by the Bòrd's Accountable Officer reflected the main findings from both external and internal audit work. This recorded management's responsibility for maintaining a sound system of internal control, set out the Bòrd's approach to this. The main disclosures included within the Statement were that the Bòrd intends to improve its arrangements by:
 - reviewing current policies and procedures on standing orders and financial instructions, including schemes of delegation and segregation of duties
 - formalising policy and procedures on fraud and corruption
 - formalising procurement procedures
 - developing consistent performance monitoring arrangements for funding awards.



Regularity assertion

22. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts was incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.



Governance

Overview of arrangements

23. This section sets out our main findings arising from our review of the Bòrd's governance arrangements. This year we reviewed:
- key systems of internal control
 - internal audit
 - aspects of information and communications technology (ICT).
24. We also discharged our responsibilities as they relate to prevention and detection of fraud and irregularity; standards of conduct; and the organisation's financial position (see paragraphs 7-9). Our overall conclusion is that whilst we acknowledge the organisation is new and developing, it is important that governance and accountability arrangements are improved as soon as possible. The more important areas were
- The Scottish Government has not yet agreed a management statement with the Bòrd which sets out specific accountabilities and expectations. It is important that the Bòrd progresses this with their sponsor Directorate.
 - The Bòrd had not prepared a corporate plan, updated to take account of its new legal structure. This is a key element of good governance arrangements.
 - A statement of Best Value review activity requested for 2006/07 was not provided to the Scottish Executive by 30 September 2006. It is important that the Bòrd considers how it can meet the duty of Best Value - we will be looking at aspects of this over our audit appointment.
 - The Bòrd has not yet prepared a risk register. One example of an internal operational risk is that the small staffing resource within the finance department does not allow for the satisfactory segregation of duties. The Bòrd should consider this risk as part of its overall risk management development and what agree actions required to mitigate this and other risks.

Systems of internal control

25. 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 2006/07 Deloitte provided an opinion that, based on the internal audit work undertaken in the year ended



31 March 2007 that the Bòrd generally has an adequate framework of control over the systems they examined. Those systems were core financial controls and grant awards.

26. As part of our audit we reviewed the high level controls in a number of the Bòrd's systems that impact on the financial statements. Our overall conclusion was that, with the specific exceptions noted below, key controls were operating effectively. We have concerns as regards the lack of division of duties within the finance function and the absence of written procedures such as standing orders and financial regulations. These concerns have been deemed to significant enough to merit specific disclosure in the Statement of Internal Control.

Internal audit

27. Internal audit is a key element of the internal control set up by management. A strong internal function is necessary to ensure the continuing effectiveness of the internal control environment. 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.
28. It was decided at an Audit Committee held on 7 March 2007 to appoint Deloitte as internal auditor for financial year 2006/2007. Deloitte provided this service to the limited company which was the Bòrd's predecessor organisation. Because of the delay in appointment between 3 April 2006 and March 2007 means that there was effectively no internal audit in place for most of 2006/2007.

Business continuity planning

29. Business continuity planning (BCP) is designed to reduce the organisation's business risk arising from unexpected disruption of critical functions or operations which are necessary for the continued delivery of services. Our 2006/07 review of the governance arrangements at the Bòrd found that no BCP has been prepared. This is an area that the organisation should address as possible and actions have been agreed with the Bòrd on this which we will follow up in 2007/08.

Performance

30. 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 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.
31. Accountable Officers also have a duty to ensure the resources of their organisation 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.
32. In a Scottish Government letter dated 17 July 2006 they stated that they wished to agree key performance targets with the Bòrd for the coming period, at time of our review February 2007, this had not been done. However, the Executive gave the Bòrd three Key Performance Indicators they expected them to achieve. These three targets were to:
 - publish a National Plan for Gaelic in draft by end of August 2006 and final draft to Ministers by the end of January 2007
 - publish the Guidance on the Development of Gaelic Language Plans in draft by end of August 2006 and final draft to Ministers by the end of January 2007
 - ensure accurate expenditure forecasting and timely monthly accounts for Gaelic Grants.
33. We understand that the Scottish Government sponsor Directorate is satisfied that the first two targets have effectively been met. However although expenditure forecasting is being carried out, monthly management accounts are not being prepared. The Bòrd have prioritised other activities and consider that if resources were diverted to preparing these accounts, this would impact on more critical activities which the Bòrd view as being more beneficial to the organisation.
34. The Bòrd is still developing its own performance measures and consideration is being given to building on performance measures developed by similar bodies in Wales and Ireland. This approach would support longer term development and benchmarking performance measures with these organisations in future.
35. **Best Value developments** - The Scottish Government also requested of the Bòrd a statement of their Best Value review activity, by 30 September 2006, for their approval. The Bòrd has not met with this request and at the time of our review of governance arrangements in February 2007, no statement of Best Value activity had been prepared. This is an area we will focus on in 2007/08.

Looking forward

36. The Bòrd faces a number of challenges in 2007/08, which include:

- **Performance management** – The Bòrd needs to improve how it evaluates its activities to provide a clearer assessment of its contribution to the development of the Gaelic Language in Scotland. A performance management framework requires to be developed to monitor the progress being made in achieving the Bòrd's corporate goals.
- **Shared services** – The Bòrd has had initial meetings with other central government bodies in Inverness with a view sharing accommodation and support services such as IT. Taking forward this agenda and encouraging the development of shared services is a significant element of improved efficiency and joined up government across the public sector. We will monitor progress on this in 2007/08.
- **Procurement** – The Review of Public Procurement in Scotland report by John McClelland issued in March 2006 contained a significant number of findings and recommendations in respect of procurement in the public sector. The Bòrd has had meetings with other government agencies located in Inverness with a view to benefiting from their greater buying power. We aim to review progress on this in 2007/08.
- **Best Value** – The Bòrd will need to ensure that it has mechanisms in place that enable it to demonstrate continuous improvement, a fundamental element of which is a performance management framework, and that the principles of best value are embedded within its processes. Over the next year we will also be refining our approach to the audit of public bodies' arrangements to secure economy, efficiency and effectiveness in the use of resources, as one of the key objectives as auditors, set out within the new Code of Audit Practice approved by the Auditor General. This will inform our ongoing work to develop an approach to the audit of Best Value across the Scottish public sector. We intend to consult with both clients and stakeholders at key stages of these initiatives.
- **Efficient Government** - The achievement of future Efficient Government targets represents a challenge for the organisation and its partner organisations.