

Scottish Commission for the Regulation of Care

Report on the 2006/7 Audit



October 2007



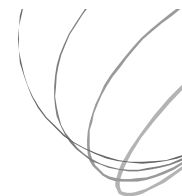
Scottish Commission for the Regulation of Care

Report on the 2006/07 Audit



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Executive Summary

Introduction

In 2006/07 we audited the financial statements of the Scottish Commission for the Regulation of Care (Care Commission) and we looked at 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 Care Commission for 2006/07.

The new FReM requirement to account for grant-in-aid as a credit to reserves has resulted in an excess of expenditure over income for the year of £18.5 million in 2006/07 (2005/06 result restated to reflect the change in accounting policy: £18.2 million excess expenditure). The grant-in-aid credited to reserves for the year was £17.4 million (2005/06: £17.5 million).

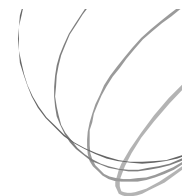
The total grant-in-aid allocated to the Care Commission from the Scottish Government during the year was £17.8 million (2005/06: £16.3 million). Of the £17.8 million allocated, £17.3 million was drawn down in cash during the year, £0.4 million was carried forward to meet the costs of a revised pay and grading scheme which is expected to be finalised in 2007/08 and the remaining £0.1m was not required to be drawn down.

Performance

The Care Commission publish an annual corporate plan which covers the objectives for the following three years. As part of the development of the corporate plan each year, a set of Key Performance Indicators (KPIs) are proposed by the Audit Committee and approved by the Board for inclusion in the corporate plan. These KPIs provide the Board with information on how well the Care Commission is meeting the objectives set out in the corporate plan. Quarterly performance monitoring reports are presented to the Board providing a summary of actual performance against each of the KPIs.

Governance

Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. Overall the corporate governance and control arrangements for the Care Commission operated satisfactorily during the year, as reflected in the Statement on Internal Control.



Looking forward

Negotiations are ongoing with both the Scottish Government and the appropriate staff side representatives on the current proposals for the Care Commission's revised pay and grading structure. It is expected that final agreement will be reached sometime in 2007/08.

The full implementation of the review of administrative staffing functions, remits and structures is still outstanding. This commenced in February 2007 and Care Commission officers will report on progress to the Board and Sub Committees throughout 2007/08.

As part of the 2007/08 audit we will be reviewing the progress that the Care Commission has made in strengthening their arrangements for securing Best Value.

The Scottish Executive announced in June 2006 that an independent review of regulation, audit, inspection and complaints handling across all public services in Scotland would be undertaken by Professor Lorne Crerar. The Care Commission is one of the scrutiny bodies covered by this review. The report was issued on 25 September 2007 and we will review the recommendations made in it.

Audit Scotland
October 2007

Introduction

1. This report summarises the findings from our 2006/07 audit of the Scottish Commission for the Regulation of Care (Care Commission). The scope of the audit was set out in our Audit Plan, which was presented to the Audit Committee on 26 March 2007. This plan described the work we planned to carry out on financial statements, performance and governance.
2. Appendix A of this report sets out the key risks highlighted in this report and the action planned by management to address them.
3. 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 care Commission 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

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

Our Responsibilities

5. We audit the financial statements and give an opinion on whether:
 - they give a true and fair view of the financial position of the Care Commission 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.
6. 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; and
 - assessing whether disclosures in the statement are consistent with our knowledge of the Care Commission.

Overall Conclusion

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

Financial Position

2006/07 outturn

8. The new FReM requirement to account for grant-in-aid as a credit to reserves has resulted in an excess of expenditure over income for the year of £18.5 million in 2006/07 (2005/06 result restated to reflect the change in accounting policy: £18.2 million excess expenditure). The grant-in-aid credited to reserves for the year was £17.3 million (2005/06: £17.5 million).
9. The total grant-in-aid allocated to the Care Commission from the Scottish Government during the year was £17.8 million (2005/06: £16.3 million). Of the £17.8 million allocated, £17.3 million was drawn down in cash during the year, £0.4 million was carried forward to meet the costs of a revised pay and grading scheme which is expected to be finalised in 2007/08 and the remaining £0.1 million was not required to be drawn down.

10. The Care Commission received Operating Income of £13.1m during 2006/07 (2005/06: £14m). Operating Income is mainly derived from fees received from care providers of £12.0m (2005/06: £12.9m) and recharges to the Scottish Social Services Council of £0.6m (2005/06 £0.6m). Total operating income showed a decrease of £0.9m from the prior year, the main reasons for this being changes to the number and mix of service providers resulting in lower levels of continuation fee income and fees for variations being set at zero.
11. Total Operating Costs of £30.7m (2005/06: £30.7m) were mainly attributable to staff costs of £22.5m (2005/06: £22.5m), the remainder of £8.2m representing other operating costs such as property costs, administration and depreciation. The Care Commission also incurred exceptional costs of £0.3m (2005/06: £1.8m), which relate to the restructuring exercise. The restructuring is now complete and no further exceptional costs in this area will be required in 2007/08.
12. The Care Commission's balance sheet at 31 March 2007 showed net assets of £1.1 million (2005/06 net liabilities of £4.5 million). This movement was mainly attributable to the impact of the deficit on the pension scheme (£0.5m), a reduction of £6.6m from last year's liability.

2007/08 budget

13. The Finance and Human Resources Committee approved the Care Commission's Revenue Budget for 2007/08 on 14 May 2007. Total grant-in-aid has been agreed with the Scottish Government at £18.4m, which includes the £0.4m carried forward from 2006/07 to meet the costs of implementing a revised pay and grading scheme. Total budgeted Operating Income has been set at £12.9m of which fees to care providers account for £12m.
14. The total budgeted expenditure for 2007/08 has been set at £31.4m. Total staff costs of £23.6m account for the majority of this total, with other expenditure making up the remaining £7.8m expenditure. The overall budget shows a net expenditure of £0.1m, which is to be met from reserves.
15. The Capital Programme for 2007/08 was also approved by the Finance and Human resources Committee on 14 May 2007.

Issues Arising from the Audit

16. We reported the following issues to the Audit Committee on 8 October 2007:
17. **Fraudulent use of 3G Card:** the Care Commission identified that the relative of a member of staff had been fraudulently using a 3G Card to access the internet. The Care Commission undertook a review of all policies on which this incident had an impact and this will be submitted to the Partnership Forum in due course. An agreement is currently being negotiated with the individual concerned to repay the sum of money. We will review the position in 2007/08.

Refer Action Plan No. 1

18. **Accrual of grant-in-aid:** the Care Commission received year end flexibility approval to carry forward £0.4m of their 2006/07 grant-in-aid. This year end flexibility was approved to assist in meeting the additional costs arising from the Job Evaluation exercise and the 2006/07 pay award which are expected to be finalised in 2007/08. The Care Commission included the £0.4m in the total grant-in-aid credited to the General Fund and the same amount was accrued within debtors. Grants and grant-in-aid should be included in the accounts on a cash basis and should not be treated as financing until received. This was adjusted for in the final version of the annual accounts.
19. **Accounting Policies:** the Care Commission did not disclose the accounting policy relating to intangible fixed assets in the first draft of the annual accounts. This was amended in the final version of the accounts.
20. **Fixed Asset valuation:** an error was noted in the calculation of indexation on Information Technology assets and Software Licences. The indexation factor for March 2007 should have been used in the calculation not an average index for 2006/07 which was used in error. This resulted in the Net Book Value of tangible assets being overstated by £12k and intangible assets being overstated by £11k. These errors were adjusted in the final version of the annual accounts.
21. **Debtor/Creditor reconciliations:** our year end testing noted that year end reconciliations of debtors and creditors to the general ledger system have not been authorised by senior finance staff. Independent review and authorisation of such reconciliations is an important element in the year end control environment and this should be evidenced by an authorised signature.

Refer Action Plan No. 2

22. **Management Statement and Financial Memorandum:** from our review of Governance and Accountability arrangements we note that the Management Statement and Financial Memorandum (MS/FM) were issued by the Scottish Government in 2004. Part 1 (para.5) notes that these should be reviewed and updated periodically by the Department, normally every 2-3 years. The FM/MS also states that the Care Commission may propose amendments to these documents at any time. Although we recognise that the recent publication of the Crerar report may impact on the Care Commission, it should consider whether the current framework within which it is required to operate remains appropriate.

Refer Action Plan No. 3

23. **Letter of Representation:** a response to the letter of representation was received on 17 October.

Statement on Internal Control

24. The Statement on Internal Control provided by the Care Commission'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 and set out the Care Commission's approach to this.

Regularity Assertion

25. 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 her view on adherence to enactments and guidance. No significant issues were identified for disclosure.

Performance

26. 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.
27. 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.

Performance

28. The Care Commission publish an annual corporate plan which covers the objectives for the following three years. The corporate plan is approved by Scottish Ministers. The Corporate Plan for 2006/07 set the Care Commission 15 key objectives, or targets. These included a target to 'effectively manage Finance, Administration and ITC resources'.
29. As part of the development of the corporate plan each year, a set of Key Performance Indicators (KPIs) are proposed by the Audit Committee and approved by the Board for inclusion in the corporate plan. These KPIs provide the Board with information on how well the Care Commission is meeting the objectives set out in the corporate plan.
30. We note that quarterly performance monitoring reports are presented to the Board. These reports provide the Board with a summary of actual performance against each of the KPIs. The reports highlight trends in performance and also provide details of any corrective action required to ensure targets are met.
31. The Care Commission's Annual Report provides a summary of achievement against each of the KPIs. Performance against targets are rated as 'exceeded target', 'met target', 'mainly met target' or 'did not meet target'. Of the 15 targets set out in the Corporate Plan the Care Commission's performance in 2006/07 'exceeded target' in 4 and 'met target' in a further 10. The performance in the remaining target was rated as 'mainly met target'.

Best Value

32. As part of the 2007/08 audit we will be reviewing the progress that the Care Commission has made in strengthening their arrangements for securing Best Value. Over the next 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 is 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.

Governance

Overview of arrangements

33. This section sets out our main findings arising from our review of the Care Commission's governance arrangements. This year we reviewed:
- key systems of internal control; and
 - internal audit.
34. 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 8-12). Our overall conclusion is that arrangements within the Care Commission are sound and have operated throughout 2006/07.

Systems of internal control

35. 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, Chiene & Tait, the internal auditors, provided an opinion that, based on the internal audit work undertaken during the year, the Care Commission's internal controls and governance framework are sufficient to ensure the efficient and effective operation and that the strategic and operational risks to which the Care Commission are exposed are being managed.
36. As part of our audit we reviewed the high level controls in a number of the Care Commission's systems that impact on the financial statements. Our overall conclusion was that key controls were operating effectively and there were no issues from our work which merited disclosure within the Statement on Internal Control in the 2006/07 accounts.

Internal audit

37. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2006/07 audit we assessed whether we could place reliance on the Care Commission's internal audit function. We concluded that the internal audit service operates in accordance with the Government Internal Audit Manual and therefore placed reliance on a number of internal audit reviews as outlined in our audit plan.

38. We note that the current contract for Internal Audit services is due for retendering in 2008/09. The Care Commission will need to ensure that the process is carried out timeously to avoid the risk of a period where there is no Internal Audit coverage.

Looking Forward

39. The Care Commission faces a number of challenges in 2007/08, which include:

- **Revised Pay and Grading Structure** – negotiations are ongoing with both the Scottish Government and the appropriate staff side representatives on the current proposals for the Care Commission's revised pay and grading structure. It is expected that final agreement will be reached sometime in 2007/08.
- **Internal Audit retendering** - the current contract for Internal Audit services is due for retendering in 2008/09. The Care Commission will need to ensure that the process is carried out timeously to avoid the risk of a period where there is no Internal Audit coverage.
- **Project Management** - Internal Audit presented a report to the Audit Committee of 25 June 2007 on Project Management Arrangements within the Care Commission. The report concluded that only '*limited assurance*' could be obtained from the current project management arrangements. The agreed actions arising from this report require to be implemented during 2007/08.
- **Practice Management System (PMS) development** – PMS is the core software application used by the Care Commission to support key business operations such as Registrations, Variations, Inspections Complaints and Enforcements. An Internal Audit report to the Audit Committee of 26 May 2007 noted a number of issues with PMS. The agreed actions arising from this report are to be implemented during 2007/08.
- **Impact of Organisational structure review** – the full implementation of the review of administrative staffing functions, remits and structures is still outstanding. This commenced in February 2007 and will be reported on throughout 2007/08. We note that an internal review of the organisational restructuring highlighted that 'feedback from Care Commission Staff and external stakeholders has confirmed that the restructure has already produced benefits'.
- **Crerar Review** - the Scottish Executive announced in June 2006 that an independent review of regulation, audit, inspection and complaints handling across all public services in Scotland would be undertaken by Professor Lorne Crerar. The Care Commission is one of the scrutiny bodies covered by this review. A report was issued on 25 September 2007 and we will review the recommendations made in it.

Appendix A: Action Plan

Key Issues and Planned Management Action

Action Point	Issue Identified	Planned Action	Responsible Officer	Target Date
1	The Care Commission identified that a relative of a member of staff had fraudulently used a 3G card to gain access to the internet resulting in a financial cost to the body.	<p>The 3G cards are limited to a few key staff. The cards are now "pin" protected and cannot be used without the correct "pin" number being entered.</p> <p>Recovery of the debt from the employee concerned is currently being negotiated.</p>	<p>Business Information Manager</p> <p>Director of Corporate Services</p>	<p>Complete</p> <p>On-going</p>
2	Year end testing noted that year end reconciliations, of debtors and creditors to the general ledger system, have not been authorised by senior finance staff. Independent review and authorisation of such reconciliations is an important element in the year end control environment and this should be evidenced by an authorised signature.	<p>The working papers files are thoroughly reviewed by the Finance Manager and Senior Accountant in their entirety. The Finance Manager's review points are included in the working papers files and include reference to the debtors and creditors reconciliations.</p> <p>This said, in recognition of the good practice highlighted by the auditors these reconciliations will be signed by the Finance Manager in future years.</p>	Finance Manager	June 2008
3	<p>The Management Statement and Financial Memorandum were issued by the Scottish Government in 2004. Part 1 (para.5) notes that this should be reviewed and updated periodically by the Department, normally every 2-3 years.</p> <p>The Care Commission should consider whether the current framework within which it is required to operate remains appropriate.</p>	The new Corporate Services Director is reviewing the current framework and when this is completed any issues will be discussed with the Sponsor.	Director of corporate Services	Jan 2008