

Scotland's Commissioner for Children and Young People

Report on the 2006-07 Audit

9 August 2007

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Executive Summary

Introduction

We have audited the financial statements of the Scotland's Commissioner for Children and Young People (the Commissioner) for 2006-07 and examined aspects of the Commissioner's performance and governance arrangements. This report sets out our key findings.

Financial Statements

The Commissioner's net expenditure on operating activities for the year ended 31 March 2007 totalled £1.144 million. Staff costs accounts for 54% total expenditure with administration costs (41%) and depreciation costs accounting for the remainder.

Excluding non cash items (Depreciation £58,000 and cost of Capital £8,000) total expenditure was £1.152 million. This compares to a budget of £1.242 million representing an underspend of £90,000 (7% of budget).

The Commissioner's draft financial statements were presented for audit on 4 May 2007, significantly in advance of the prior year. The accounts and supporting working papers were of a high standard and, as a result, few adjustments were required to be processed following our audit. This represents a significant improvement in the year end audit processes.

Governance

The Commissioner's office is a small organisation with limited resources and management capacity. In keeping with the size and scale of her operations, the Commissioner does not have a formal process in place for best value or for measuring and monitoring efficiency.

Our review found that the Commissioner's office continues to work closely with the other commissioners and ombudsman bodies, and has considered a shared service approach in some areas. We noted that staff from the Commissioner's office continue to meet regularly with their counterparts in the other Commissioner and Ombudsman bodies to discuss operational issues. This has led to the sharing of good practice across a range of administrative matters. The Commissioner has also recently restructured her Office and anticipates some savings in staff costs as a result.

The Way Forward

Our findings and recommendations are summarised in an Action Plan (Appendix A) that accompanies this report. The Action Plan has been agreed with management and incorporates the management response to audit recommendations.

The report includes some specific recommendations to strengthen internal controls. It is the responsibility of the Commissioner to decide the extent of the internal control system appropriate for the management of her office.

Acknowledgements

We would like to take this opportunity to thank the Commissioner and her staff who have been involved in this review for their assistance and co-operation.

This report is part of a continuing dialogue between the Commissioner and Grant Thornton and is not, therefore, intended to cover every matter which came to our attention. Our procedures are designed to support our audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in the Commissioner's systems and work practices.

The report is not intended for use by third parties and we do not accept responsibility for any reliance that third parties may place on. The report will be submitted to the Auditor General for Scotland and will be published by him on his website at www.audit-scotland.gov.uk.

Grant Thornton UK LLP

9 August 2007

Financial Statements

Our Responsibilities

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 Commissioner as at 31 March 2007 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.

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

We have given an unqualified opinion on the financial statements of the Commissioner for the 2006-07 financial statements. We are able to conclude that the financial statements of the Commissioner give a true and fair view of the financial position for the period from 1 April 2006 to 31 March 2007 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.

Standard of accounts and supporting papers

The Commissioner's draft financial statements were presented for audit on 4 May 2007, significantly in advance of the prior year. The accounts and supporting working papers were of a high standard and, as a result, few adjustments were required to be processed following our audit. This represents a significant improvement in year end audit processes.

The Commissioner's net expenditure on operating activities for the year ended 31 March 2007 totalled £1.144 million. Staff costs accounts for 54% total expenditure with administration costs (41%) and depreciation costs accounting for the remainder.

Excluding non cash items (Depreciation £58,000 and cost of Capital £8,000) total expenditure was £1.152 million. This compares to a budget of £1.242 million representing an underspend of £90,000 (7% of budget).

Statement on Internal Control

The Statement on Internal Control 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.

We are satisfied that the Statement complies with Scottish Executive guidance, that the process put in place by the Accountable Officer (the Commissioner) 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.

We noted that internal audit do not provide the Commissioner with an annual assurance statement.

Refer action plan point 1

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

Our responsibilities in relation to the communication of audit matters to those charged with governance are covered in the International Standard on Auditing 260 and the matters we are reporting against the requirements of the Standard are contained in Appendix B. In this context, our audit has identified one unadjusted error which we are required to report in accordance with the Standard.

Refer action plan point 2

Governance

Introduction

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.

As part of our 2006-07 audit, we assessed the adequacy of the Commissioner's governance arrangements against good practice standards for the public sector. We 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 Commissioner's overall financial position.

Key outcomes from our 2006-07 audit

We found that the Commissioner's governance arrangements operated well and within a generally sound control environment. The Commissioner complies with the good practice guidance in relation to governance as outlined in the Scottish Public Finance Manual in so far as it is relevant to the role of the Commissioner.

However, the Commissioner could make further progress in developing and embedding corporate governance arrangements in line with best practice in the following key areas:

- further clarification of the role of the Scottish Parliamentary Corporate Body (SPCB) in the budget approval and authorisation process;
- clarification of the Commissioner's personal liability status in respect of the activities of her office; and
- further development of business continuity arrangements.

We note that these the first two of the issues highlighted above will require engagement and agreement with the SPCB.

Refer action plan point 3 & 4

Performance

Introduction

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 annual 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.

The Commissioner, as Accountable Officer for her office, has a duty to ensure public resources 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.

Best value and efficient government

We carried out an overview of the Commissioner's arrangements in relation to the duty to deliver best value and efficiency in the operations of her office.

The Commissioner's office is a small organisation with limited resources and management capacity. In keeping with the size and scale of her operations, the Commissioner does not have a formal process in place for best value or for measuring and monitoring efficiency.

Our review found that the Commissioner's office continues to work closely with the other commissioners and ombudsman bodies, and has considered a shared service approach in some areas. We noted that staff from the Commissioner's office continue to meet regularly with their counterparts in the other Commissioner and Ombudsman bodies to discuss operational issues. This has led to the sharing of good practice across a range of administrative matters.

The Commissioner has also recently restructured her Office and anticipates some savings in staff costs as a result.

However, we recommend that the Commissioner should set out more explicitly how she intends to measure, monitor and report on the achievement of best value and efficiency in the management of her office going forward.

Action Plan Point 5

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9 August 2007

Appendix A – Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
Statement of internal control					
1	Internal audit do not provide a year end assurance statement to the Commissioner.	Low	The Commissioner should seek a year end assurance statement from its internal audit provider. This will assist the Commissioner in completing the Statement of Internal Control.	We will arrange for the internal auditor to provide year end assurance statement as part of annual contract to review governance procedures.	September 2007
Financial Statements					
2	The Excel spreadsheet used to calculate depreciation for the annual accounts contained an error which resulted in a £3,000 understatement of the depreciation figure.	Medium	The Commissioner should amend ensure the excel spreadsheet used to calculate depreciation is amended to correct for the identified calculation error.	The excel spreadsheet used to calculate depreciation will be amended as requested.	September 2007
Governance					
3	There is a lack of clarification of the role of the Scottish Parliamentary Corporate Body in the budget approval and authorisation process.	Medium	The Commissioner should seek formal guidance on the role of the Scottish Parliamentary Corporate Body in the budgetary process. This will clarify roles and responsibilities in the budget process.	Guidance on the role of the SPCB in the budgetary process is contained in the Financial Memorandum agreed between the Commissioner and the SPCB. However, the role of SPCB has been raised by the Scottish Parliament's Finance Committee.	Ongoing

No	Finding	Risk	Recommendation	Management Response	Implementation date
				This therefore is a matter for ongoing discussion.	
4	The Commissioner has not received clarification with regard to her own personal liability in respect of the activities of his office.	Medium	The Commissioner should continue to seek clarification from the Scottish Parliamentary Corporate Body on the extent of her personal liability. This will enable the Commissioner to have in place adequate governance arrangements to take account of the risks of her role	Although already raised on numerous occasions, the Commissioner will continue to raise this issue with SPCB. She will consult other Commissioners/ Ombudsmen about seeking independent legal advice, as suggested by SPCB.	September 2007
Performance					
5	In keeping with the size and scale of her operations, the Commissioner has not formalised her approach to best value or efficient government.	Low	The Commissioner should consider setting out arrangements for monitoring compliance with the duty of best value more formally.	The Commissioner's paper "SCCYP Governance & Decision Making" became effective from July 2007. This document sets out the framework for governance of SCCYP and includes a Scheme of Delegation in relation to expenditure. The above document will be reviewed to include arrangements for monitoring compliance with the duty of best value.	September 2007

Appendix B - Communication of audit matters to those charged with governance

ISA 260 – Communication of audit matters to those charged with governance

Under ISA 260, we are required to consider matters of governance interest that arise from the audit of the financial statements and communicate them with those charged with governance. The areas considered are as follows:

- a) Relationships that may bear on the Grant Thornton UK LLP's independence and the integrity and objectivity of the audit engagement lead and audit staff;
- b) The overall approach to the audit including any limitations thereon, or any additional requirements;
- c) The selection of, or changes in, significant accounting policies and practices that have, or could have a material effect on the entity's financial statements;
- d) The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements;
- e) Audit adjustments, whether recorded or not by the entity that have, or could have a material impact on the entity's financial statements; and
- f) Those uncorrected misstatements aggregated by the auditor during the audit that were determined by management to be immaterial both individually and in aggregate to the financial statements as a whole.

Key Findings

We summarise our key audit findings in relation to the above areas.

Ref	Area	Key Messages
A	Independence	<p>We are able to confirm our independence and objectivity as auditors and note the following:</p> <ul style="list-style-type: none"> • we are independently appointed by Audit Scotland; • we comply with the Auditing Practices Board's Ethical Standards; and • we have not performed any non Code of Audit Practice (the Code) or advisory work during the year.
B	Approach to the audit	<p>Our approach to the audit was set out in our 2006-07 audit plan. We have planned our audit in accordance with International Auditing Standards and the Code. Other key factors to highlight include:</p> <ul style="list-style-type: none"> • we consider the materiality of items in the financial statements both in determining the approach to audit them and in determining the impact of any errors; and • we have been able to place appropriate reliance on the key accounting systems operating at SFPA for final accounts audit purposes only.
C	Accounting policies and practices	<p>We consider that the Commissioner has adopted appropriate accounting policies in the areas covered by our testing. Accounting policies adopted were in accordance with the Government Financial Reporting Manual (FRM).</p>
D	Material risks and exposures	<p>The Commissioner has considered and confirmed that it has no material risks and exposures which should be reflected in the financial statements. The Commissioner is asked to confirm this in the Letter of Representation</p>
E	Audit adjustments and unadjusted errors	<p>We identified several minor disclosure amendments and reclassifications to improve the presentation of the accounts. The Commissioner has agreed to adjust the accounts.</p>

Summary of accounting adjustments

There are no accounting adjustments to report.

Summary of unadjusted audit differences

This is a summary of unadjusted audit differences identified during the course of our audit. These differences have not been amended, as they are not material to the financial statements.

	Income & Expenditure account		Balance Sheet	
	Dr £000s	Cr £000s	Dr £000s	Cr £000s
Adjustments affecting reported results				
Calculation error for depreciation		3,000	3,000	
Misclassification or disclosure adjustments				
None				

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9 August 2007