

Scottish Building Standards Agency

Report on the 2006/07 Audit



20 September 2007





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Executive Summary

Introduction

We have audited the 2006/07 financial statements of the Scottish Building Standards Agency and considered aspects of performance management and governance. This report sets out our key findings.

Financial Position

The Scottish Building Standards Agency received £1.676m in funding from the Scottish Executive during the year to 31 March 2007 (2005/06: £1.457m). Net operating costs for 2006/07 were £1.778m (2005/06: £1.477m). The net book value of assets at 31 March 2007 was £0.387m with additions of £0.003m during the year. There were no disposals during the year. Commentary on the financial performance of the agency is made in the financial position section of this report.

Financial Statements

We have given an unqualified opinion on the accounts and have concluded that the financial statements of the Scottish Building Standards Agency for the year ending 31 March 2007 give a true and fair view of the state of affairs.

We have also concluded 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, issued by Scottish Ministers.

We have also reviewed the other issues which we are required to consider as part of our audit opinion, such as the Chief Executive's Introduction, Management Team Report, Management Commentary, Remuneration Report and the Statement on Internal Control. We can confirm that there are no further matters that we need to bring to the attention of the Scottish Building Standards Agency.

Performance

The Scottish Building Standards Agency was set ten Ministerial targets in 2006-07. Five of these have been achieved, whilst a further three are on target, with the remaining two achieved in part.

Governance

Corporate Governance is concerned with the structures and processes for decision making, accountability, control and behaviour at the upper levels of an organisation.



The establishment and operation of an efficient and effective internal audit function forms a key element of effective governance and stewardship. Scottish Building Standards Agency's internal audit service is provided by the Scottish Executive Internal Audit Division. We reviewed internal audit and concluded that they continue to comply with Government Internal Audit Standards and we have placed general reliance on their work.

The Scottish Building Standards Agency's corporate governance and control arrangements operated satisfactorily in the period under review as reflected in the Statement on Internal Control.

We have made recommendations in Appendix A both to bring the fixed asset register into compliance with the Scottish Public Finance Manual, and to improve checks carried out in relation to the interests of non-executive directors.

Audit Scotland
20 September 2007



Introduction

1. This report summarises the findings from our 2006/07 audit of the Scottish Building Standards Agency. The scope of the audit was set out in our Audit Plan, which was presented to the Audit Committee on 25 April 2007. The plan set out our views on the key business risks facing the organisation and described the work we planned to carry out on financial statements, performance and governance.
2. In the Audit Risk and Analysis Plan, we identified six main audit issues and risks which directed our audit procedures. From our audit work we can conclude that these issues and risks are being satisfactorily managed by Scottish Building Standards Agency. Appendix A of this report sets out the key issues identified during the course of our audit 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 executive members of the Scottish Building Standards Agency 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.
4. The principles of independence, the wider scope of the audit and the ability to report in public are central to public sector audit. All Audit Scotland staff are bound by its Staff Code of Conduct which incorporates the Seven Principles of Public Life identified by the Nolan Committee on Standards in Public Life and conforms to International Standards on Auditing. All staff also confirm annually that they comply with the Code's ethical values and principles. Staff are also subject to the relevant ethical standards and guidance of the professional bodies of which they are members.



Financial Statements

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

Our Responsibilities

6. We audit the financial statements and give an opinion on whether:
 - they give a true and fair view of the financial position of the Scottish Building Standards Agency 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.
7. 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 Scottish Building Standards Agency.

Overall Conclusion

8. We have given an unqualified opinion on the financial statements of the Scottish Building Standards Agency for 2006/07.

Financial Position

2006/07 outturn

9. The Scottish Building Standards Agency's operating cost statement for the year records net operating costs of £1.778 million (2005-06 £1.477m). The increase from 2005-06 relates largely to increased expenditure on staff costs due to an increase in permanent staff numbers. Expenditure incurred as a result of implementing new building standards has also contributed to the increase.



10. Income received in 2006-07 by the Scottish Building Standards Agency amounted to £0.013 million (2005-06 £0.001million). The increase in income is due to fees received from certification audits. No fees were received for certification audits prior to 2006-07.

2007/08 budget

11. Scottish Ministers have set an initial resource budget for the Scottish Building Standards Agency of £1.3 million for 2007/8.

Issues Arising from the Audit

12. We reported the following issues to the Audit Committee on 24 September 2007:

- £898 of accruals were omitted from the accounts. Audit Scotland agreed that these misstatements were not sufficiently material to require adjustments to the account.
- Changes made to the calculation of rent in respect of Denholm House resulted in long term creditors being understated by £2,478. This was not sufficiently material to require restating the 2005-06 figures.
- The Department of Work and Pensions introduced changes to the calculation of CETV figures. As a result, CETV figures for 2005-06 required restating so that a fair comparison with 2006-07 figures can be made.

There are no other significant judgements included in the accounts on which we wish to comment.

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

- **Fixed Asset Register:** The Fixed Asset Register (FAR) is not reconciled to the ledger prior to production of the annual financial statements. There is a risk that all assets will not be correctly reported in the financial statements. It is recommended that the Scottish Building Standards Agency perform a reconciliation of the FAR to the ledger prior to accounts preparation.

Action point 1

- **Register of Interests:** The Scottish Building Standards Agency do not have a confirmation from each Non-Executive Director that they have no declared interests. There is therefore a risk that conflicts of interest are not identified. It is recommended that notification of Non-Executive Directors' declarations of registered interests should be held by the Agency.

Action Point 2



Statement on Internal Control

14. The Statement on Internal Control provided by the Scottish Building Standards Agency's Accountable Officer reflected the main findings from both external and internal audit work. This sets out the arrangements operated for risk identification and review, management of identified risks and assurance of effectiveness.
15. 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.

Regularity Assertion

16. 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.



Performance

17. 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.
18. 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.
19. The Scottish Building Standards Agency's corporate plan 2006-2009 outlines the ten Ministerial targets set for 2006-07. Five of these have been achieved and are outlined below, whilst a further three are on target, with the remaining two achieved in part.
20. The Scottish Building Standards Agency achieved the following during 2006-07:
 - The successful implementation of new building standards through publication of a second procedural handbook.
 - Eighty per cent of all appeals and crown waivers were handled within 30 days, 5 percent above the target set.
 - The continuation of commissioning and disseminating research in order to support building standards.
 - Successful completion of the audit of local verifiers, with eight local authorities being audited, and
 - Support to other government bodies and department by providing technical advice to ensure building standards are fully integrated and consistent with other relevant legislation.



Governance

Overview of arrangements

21. This section sets out our main findings arising from our review of the Scottish Building Standards Agency's governance arrangements. This year we reviewed internal audit, and fraud prevention and detection arrangements.

Internal audit

22. 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 Scottish Building Standards Agency's internal audit function. Internal audit is provided by the Scottish Executive Internal Audit Division. Audit Scotland's Scottish Executive audit team carried out an Overview of Internal Audit as part of 2006-07 controls assurance work. Their review confirms the Internal Audit Division continues to comply with Government Internal Audit Standards and therefore we have placed reliance on their work.
23. 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 over income and expenditure systems.
24. We reviewed the annual report produced by internal audit during 2006-07. None of the observations and related risks precluded planned assurance from being taken for our financial statements audit.
25. On 9 March 2007 the Head of Internal Audit provided the Chief Executive with comprehensive assurance on the adequacy and effectiveness of internal control within the Agency.

Fraud Prevention and Detection Systems

26. The Scottish Building Standards Agency's arrangements for preventing and detecting fraud and corruption were assessed during the audit and found to be satisfactory. No frauds were identified by the Scottish Building Standards Agency during 2006-07.



Looking Forward

27. The Scottish Building Standards Agency faces a number of challenges in 2007/08, which include:

- **Recruitment** – There is a risk that problems recruiting technical staff will continue to have an impact in 2007-08. The Scottish Building Standards Agency has indicated that specific recruitment plans will be pursued in order to address this issue.
- **Performance Targets** – The Agency has a three-year aim that building work in Scotland will secure improvements to existing buildings and provide new buildings that are safe, accessible and sustainable. The following targets (outlined in the Corporate Plan 2006-2009) have been set to achieve this:
 - Develop and promote a strategy for achieving net zero carbon buildings;
 - Complete the next stage in that strategy by cutting 50% of the baseline (2002) energy use;
 - Further the use of micro generation/LZCT;
 - Complete implementation of the Energy Performance of Buildings Directive;
 - Introduce better standards to prevent noise nuisance, improve means of means of escape from fire and review existing standards;
 - Improve compliance with building standards;
 - Improve verification of building standards;
 - Improve the dissemination of service and information to stakeholders;
 - Develop international links to ensure best value and shared knowledge;
 - Improve the efficiency of the Scottish Building Standards Agency.
- **Best Value** - As part of the 2007/08 audit we will be reviewing the progress that the Scottish Building Standards Agency has made in strengthening their arrangements for securing Best Value since our baseline review work in 2005/06. 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.

Appendix A: Action Plan

Key Issues and Planned Management Action

Action Point	Issue Identified	Planned Action	Responsible Officer	Target Date
1	<p>Fixed Asset Register</p> <p>The Scottish Building Standards Agency does not currently perform a reconciliation between the Fixed Asset Register (FAR) and the ledger.</p> <p>There is a risk that the disclosure of fixed assets may be incorrectly valued or incomplete.</p> <p><i>It is recommended that the Scottish Building Standards Agency perform a reconciliation of the FAR to the ledger as part of year-end procedures.</i></p>	SBSA have started work on the reconciliation of the FAR to the ledger.	Mark Rae Head of Corporate Team	End January 2008
2	<p>Register of Interests</p> <p>The Agency does not have confirmation from Non-Executive Directors that they have no declared interests.</p> <p>There is a risk that conflicts of interest are not identified.</p> <p><i>It is recommended that the Scottish Building Standards Agency establish a register of interests for non-executive directors</i></p>	SBSA have written to Non-Executive Directors on 13 September about any interests.	Mark Rae Head of Corporate Team	End November 2007