Scottish Commission for the Regulation of Care

Report on the 2007/08 Audit

AUDIT SCOTLAND

October 2008

Contents

Executive Summary

Introduction

In 2007/08 we looked at the key strategic and financial risks being faced by the Scottish Commission for the Regulation of Care (Care Commission). We audited the financial statements and we also considered aspects of performance management and governance. This report sets out our key findings.

Financial Position

The FReM requirement to account for grant-in-aid as a credit to reserves has resulted in expenditure less other operating income for the year of £17.1 million in 2007/08 (2006/07 restated: £18.8 million).The grant-in-aid and other grants credited to reserves for the year was £17.7 million (2006/07: £17.4 million).

The total grant-in-aid allocated to the Care Commission from the Scottish Government during the year was £18.4 million (2006/07: £17.8 million). Of the £18.4 million allocated, £17.6 million was drawn down in cash during the year and the remaining £0.8 million was not required to be drawn down.

Financial Statements

We have given an unqualified opinion on the financial statements of the Scottish Commission for the Regulation of Care for 2007/08.

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.

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.

We examined the key financial systems which underpin the Care Commission's control environment. We concluded that financial systems and procedures operated sufficiently well to enable us to place reliance on them.

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.

Best Value

Over the next year we will 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.

Looking forward

The final part of our report notes some key risk areas for the Care Commission going forward. The adoption of International Financial Reporting Standards, the implications from the Scottish Government's response to the Crerar Review and the introduction of Regulation for Improvement will represent significant challenges to the Care Commission.

The assistance and co-operation given to us by Care Commission members and staff during our audit is gratefully acknowledged.

Audit Scotland

October 2008

Introduction

1. This report summarises the findings from our 2007/08 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 25 March 2008. This 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. This report completes our audit by giving an overview of the work we carried out and a summary of the key findings.

2. 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 Position

3. In this section we summarise key outcomes from our audit of the Care Commission's financial statements for 2007/08, and comment on the key financial management and accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available to it and its financial performance in the use of those resources.

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 Care Commission and its expenditure and income for the period in question;
- whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
- the consistency of the information which comprises the Management Commentary and the unaudited part of the Remuneration Report included in the Annual Report with the financial statements; and
- 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; and
- assessing whether disclosures in the statement are consistent with our knowledge of the Care Commission.

Overall conclusion

6. We have given an unqualified opinion on the financial statements of the Scottish Commission for the Regulation of Care for 2007/08.

7. As agreed, the unaudited financial statements were provided to us on 4 July 2008, supported by a comprehensive working paper package. The good standard of the supporting papers and the timely responses from Care Commission staff allowed us to conclude our audit within the agreed timetable and provide our opinion to the Audit Committee on 6 October 2008 as planned.

Financial Position

Outturn 2007/08

8. The FReM requirement to account for grant-in-aid as a credit to reserves has resulted in expenditure less other operating income for the year of £17.1 million in 2007/08 (2006/07 restated: £18.8 million). The grant-in-aid and other grants credited to reserves for the year was £17.7 million (2006/07: £17.4 million).

9. Overall the Care Commission operated within budget in 2007/08. The total grant-in-aid allocated to the Care Commission from the Scottish Government during the year was £18.4 million (2006/07: £17.8 million). Of the £18.4 million allocated, £17.6 million was drawn down in cash during the year and the remaining £0.8m was not required to be drawn down.

10. The Care Commission received Operating Income of £13.5m during 2007/08 (2006/07 restated: £12.8million). Operating Income is mainly derived from fees received from care providers of £12.5m (2006/07 restated: £11.7million) and recharges to the Scottish Social Services Council and the Office of the Scottish Charities Regulator of £0.8million (2006/07 £0.7million). Total operating income showed an increase of £0.7m from the prior year, the main reasons for this being changes to the number and mix of service providers resulting in higher levels of continuation fee income and increases in recharges to other bodies for property costs.

11. Total Operating Costs of £31.1million (2006/07: £30.7million) were mainly attributable to staff costs of £23.4million (2006/07: £22.5million), the remainder of £7.6million representing other operating costs such as property costs, administration and depreciation.

12. The Care Commission's net asset position increased to £4.3 million (2006/076 restated: £0.8 million). This movement was mainly attributable to the impact of the surplus on the pension scheme of £2.6 million, an increase of £3.2 million from last year's liability.

2008/09 Budget

13. The Finance and Human Resources Committee approved the Care Commission's Revenue Budget for 2008/09 on 12 May 2008. Total Grant in Aid has been agreed with the Scottish Government at £18.9 million and total budgeted Operating Income has been set at £13.5 million of which fees to care providers account for £12.3 million.

14. The total budgeted expenditure for 2008/09 has been set at £32.4 million. Total staff costs of £24.5 million account for the majority of this total, with other expenditure making up the remaining £7.9 million expenditure. The overall budget shows a break-even position.

15. The Capital Programme for 2007/08 was also approved by the Finance and Human Resources Committee on 12 May 2008.

Issues arising from the audit

16. As required by auditing standards we reported to the audit committee on 6 October 2008 the main issues arising from our audit of the financial statements. The key issues reported were:

17. **Change of Accounting Policy for Fee Income:** in previous years registration fee income was accounted for in the year in which the registration process began. The registration process can take several months and it is the actual completed registration date which determines the year in which the annual continuation fee becomes payable. During the year the Care Commission changed the way this income is accounted for by matching it to the period in which the registration process is completed. The 2006/07 comparative figures were restated in response to this change in accounting policy. We reviewed the calculation of the restated amounts in the accounts and found this to be satisfactory. We were informed that the Sponsor Department had given verbal approval for the change in accounting policy.

18. **Change in Estimation Technique for Fixed Assets:** the latest version of the FReM allows depreciated historic cost to be used as a methodology for calculating the current value of tangible non-property related assets that have either short useful economic lives or are of low value (or both). The Care Commission decided to use the depreciated historic cost methodology and will no longer re-value the relevant assets each year by referring to appropriate indices. As a consequence of this change the Care Commission decided to write off the full value of the Revaluation Reserve in the current year, rather than writing this off when the assets in question were disposed of. Given the immaterial nature of the balance written off no change to the accounts was considered necessary.

19. **Revised Pay and Grading Scheme:** the Care Commission's new pay and grading structure was agreed with staff in April 2008. All staff have been assimilated onto their new grade on the payroll system and arrears of backpay due to staff were paid in May 2008. The total final cost to the Care Commission of the pay and grading restructuring was £1.1 million. As the final agreement was made after the end of the 2007/08 financial year, the Care Commission included in the 2007/08 Annual Accounts an accrual for the estimated cost of arrears of backpay that would be due. This amounted to £1.1 million and therefore we were satisfied that the estimated accrual was a fair reflection of the actual final costs.

20. **Management Statement and Financial Memorandum:** in our Annual Report for 2006/07 we commented that the Management Statement and Financial Memorandum (MS/FM) had been issued by the Scottish Government in 2004. Part 1 (para.5) notes that the MS/FM should be reviewed and updated periodically by the Department, normally every 2-3 years. From our review of Governance and Accountability arrangements we noted that a review of the MS/FM was still ongoing through the NDPB Directors of Finance Forum.

21. **Letter of Representation**: a response to the letter of representation is required before the certification of the accounts.

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 were 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.

Governance

Overview of arrangements

23. 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.

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 8-12). Our overall conclusion is that arrangements within the Care Commission are sound and have operated through 2007/08.

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 2007/08 internal audit provided the opinion that, based on the internal audit work undertaken during the year, there was 'substantial assurance' that the internal controls and governance frameworks are sufficient to ensure the adequacy and effectiveness of the systems of internal control.

26. 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 2007/08 accounts.

Prevention and detection of fraud and irregularities

27. The Care Commission has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption, including policies and codes of conduct for staff and Care Commission members.

Internal Audit

28. 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 2007/08 audit we

assessed whether we could place reliance on the Care Commission's internal audit function (provided by Chiene & Tait). We concluded that the internal audit service operates in accordance with the Government Internal Audit Manual and therefore placed reliance on their work in the areas of Travel and Subsistence and Procurement. Internal audit provided 'limited assurance' for the latter area as a number of significant weaknesses were identified in the Care Commission's procurement processes. Following the report by internal audit, an independent review has been undertaken which identifies recommendations for dealing with the main issues. We note that this is recognised as a priority for the Care Commission.

29. The Care Commission have appointed Scott Moncrieff as Internal Auditors for the three years from 1 April 2008. We will undertake a review of the new arrangements for internal audit as part of our 2008/09 audit plan.

Statement on Internal Control

30. 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 set out the Care Commission's approach to this.

Performance Management

31. 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.

32. 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.

Best Value developments

33. The positive impact of the Best Value concept in local government led Scottish Ministers to introduce a non-statutory Best Value duty on all public sector accountable officers (i.e. across health and central government) in 2002. This was reinforced by refreshed Ministerial guidance in 2006, highlighting the importance that the Scottish Government places on Best Value as a means of supporting public service reform.

34. That position was again re-iterated in the Scottish Government’s recent response to the Crerar scrutiny review which credited the Best Value regime as a key driver of modernisation and improvement in public services. Audit Scotland is committed to extending the Best Value audit regime across the whole public sector and significant development work has taken place over the last year.

35. The framework for our proposed Best Value audit approach was agreed by Audit Scotland’s Corporate Management Team in September 2007. It is based on the key principles of flexibility and proportionality; alignment and integration with our existing activities; being delivered within our existing resources, and with an evolutionary implementation.

36. Using the Scottish Government’s nine best value principles as the basis for our audit activity, we have identified five priority development areas (Use of Resources, Governance and Risk Management, Accountability, Review and Option Appraisal, and Joint Working) for our initial development work.

37. Currently we are concentrating on the development of Use of Resources audit toolkits, focusing initially on Financial Management, Efficiency, and Information Management. These toolkits are being piloted in a sample of NHS and central government clients during 2007/08 and 2008/09. Developed toolkits will also be made available to public bodies to consider for self assessment.

Performance Management

38. 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 2007/08 set the Care Commission 23 objectives. These included objectives to ‘effectively manage Finance, Administration and ITC resources’ and to ‘demonstrate efficiency and effectiveness as an organisation’.

39. 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.

40. 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 objectives are met.

41. The Care Commission’s Annual Report provides a summary of achievement against each of the KPIs. Performance against targets are rated as ‘exceeded objective’, ‘met objective’, ‘mainly met objective’ or ‘did not meet objective’. Of the 23 targets set out in the Corporate Plan the Care Commission’s performance in 2007/08 ‘exceeded objective’ in 5 and ‘met objective’ in a further 15. The performance in the remaining 3 objectives was rated as ‘mainly met objective’.

National Studies

42. In August 2008 Audit Scotland published a national study, *Review of palliative care services in Scotland, which is* relevant to the Care Commission. This report is the first overview of activity, costs and quality of specialist and general palliative care in Scotland. The study examined a range of issues including: access to palliative care services; the quality of palliative care services and the extent to which these are joined up; the extent to which the Scottish Government provides clear direction and promotes coordinated planning and delivery of palliative care; and local planning arrangements.

43. The report noted that both NHS QIS and the Care Commission monitor the quality of care provided in voluntary hospices and care homes against national standards of care but there are no national standards for general palliative care in hospitals or in the community.

44. The report identified a number of key recommendations for the Scottish Government and NHS Boards. There were no specific recommendations relating to the Care Commission.

Looking Forward

45. The Care Commission faces a number of challenges in 2008/09, which include:

- **International Financial Reporting Standards (IFRS)** – As part of the UK Budget 2007 the Chancellor announced that the timetable for IFRS implementation was to be extended by a year with central government accounts in Scotland to become IFRS compliant with effect from the 2009/10 financial year. The Scottish Government have notified central government bodies that they will be required to produce shadow IFRS based accounts for the financial year in 2008/09, including a restated balance sheet as at 1 April 2008. A detailed timetable and list of requirements is awaited from the Scottish Government. This process may require significant resource to complete and it will be important that the restatement is tackled early in 2008/09, with a plan in place to manage the transition.
- **Scotland Performs** – The Scottish Government is continuing to develop its approach to performance management based on a National Performance Framework and outcome agreements. The National Performance Framework is based on the outcome based 'Virginia-style' model of performance measurement and reporting. In support of this the Scottish Government has developed a new electronic tool and website to communicate to the public on Scotland's progress. This will include progress on overall delivery of the administration's purpose for Government, the five strategic objectives for Scotland and other aspects of the outcomes based National Performance Framework. We will consider how the Care Commission is addressing this developing area as part of the 2008/09 audit.
- **Efficiency and future funding** – Budgets for 2008/09 and the immediate future will need to be managed within a tighter funding regime. This includes significantly less scope for the application of end of year flexibility for the Scottish Government with HM Treasury until the next Spending Review; no option to transfer funds from capital to revenue; and the impact of the introduction of International Financial Reporting Standards (IFRS), particularly on PFI, leases and infrastructure accounting. Although these may not all have a direct impact on the Care Commission, the challenge for the Care Commission is to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives.
- **Data handling** – The Scottish Government carried out a review of data handling arrangements in Scotland, in response to failures in UK government bodies procedures and practices during 2007. The review considered current policies and procedures on data protection, consistency with government standards and local arrangements for implementation of procedures. A report published in June 2008 made recommendations for a higher level of oversight and guidance from the Scottish Government and suggested that there was a need for further measures to

improve the security of sensitive information. We will monitor the Care Commission's response to the review and action taken as part of our 2008/09 audit.

- **Crerar Review** - The Scottish Government 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 in September 2007 and the Scottish Government has set up action groups to take forward the recommendations of the review.
- **Regulation for Improvement** – In April 2008 the Care Commission introduced the Regulation for Improvement grading scheme that will rate every care service currently regulated. This will present the Care Commission with a significant challenge in ensuring that the predicted outcomes of the project are being delivered.