

# Social Work Inspection Agency

Report on the 2007/08 Audit



August 2008





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# Executive Summary

## Introduction

In 2007/08 we looked at the key strategic and financial risks being faced by the Social Work Inspection Agency (SWIA). We audited the financial statements and we also reviewed aspects of performance management and governance. This report sets out our key findings.

## Financial Position

The Agency met its key financial target of operating within its resource budget for the year. It had a total resource budget of £4.2 million for 2007/08, against an outturn of £3.8 million. The under spend of £0.4 million was due mainly to salary and related savings as a result of difficulties in recruiting suitably experienced inspectors.

The Scottish Government has agreed a resource budget for SWIA of £4.35 million for 2008/09. Continued difficulties in recruiting experienced inspectors are likely to affect current year spending plans, with the possibility of another under spend.

## Financial Statements

We have given an unqualified opinion on the financial statements of SWIA 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.

## Performance

The Agency remains on target to complete its review of social work services in all 32 councils by the end of 2008/09, with 12 councils still to be inspected. SWIA's revised corporate plan for the period 2008/11 changes the focus of work from cyclical reviews to a more targeted approach based on a needs assessment.

The Agency has still to develop formal policies and procedures on how it plans to implement the best value regime.

## 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 SWIA operated satisfactorily during the year, as reflected in the Statement on Internal Control.



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

## Looking forward

The final part of our report notes some key risk areas for SWIA going forward, which we will continue to monitor in 2008/09. These include;

- **International Financial Reporting Standards (IFRS)** – The impending introduction of IFRS will have potential training and financial reporting implications for the Agency
- **Scotland Performs** – The introduction of a new performance management framework by the Scottish Government which will apply to all central government bodies
- **Efficiency and future funding** – The need to improve efficiency against a background of a tighter funding regime
- **Data handling** – Tighter controls over the security of sensitive data
- **Role of the Audit Committee** – reviewing the role of the Audit Committee in light of revised guidance from the Scottish Government

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

**Audit Scotland**  
**August 2008**



# Introduction

1. This report summarises the findings from our 2007/08 audit of SWIA. The scope of the audit was set out in our Audit Plan, which was presented to the Audit Committee on 21 February 2008. 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. Appendix A of this report sets out the key risks highlighted in this report and the action planned by management to address them.
3. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of SWIA 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](http://www.audit-scotland.gov.uk).



# Financial Position

4. In this section we summarise key outcomes from our audit of SWIA 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

5. We audit the financial statements and give an opinion on:
  - whether they give a true and fair view of the financial position of SWIA 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 Introduction by the Chief Inspector of Social Work, the Management Commentary, the Statement on Internal Control and the unaudited part of the Remuneration Report with the financial statements, 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 to obtain assurances on systems of internal control, and
  - assessing whether disclosures in the statement are consistent with our knowledge of SWIA.

## Overall conclusion

7. We have given an unqualified opinion on the financial statements of SWIA for 2007/08.
8. As agreed the unaudited accounts were provided to us on 28 April 2008 supported by a comprehensive working paper package. The good standard of the supporting papers and the timely responses from SWIA staff allowed us to conclude our audit within the agreed timetable and provide our opinion to the Audit Committee on 6 June 2008 as planned.



## Financial Position

### Outturn 2007/08

9. SWIA is required to work within the resource budget set by the Scottish Government. Net operating costs were £3.803 million (2006/07 £3.762 million) and Parliamentary grant from the Scottish Government amounted to £3.875 million (2006/07 £3.371 million). These figures include an under spend against budget of £400,000 for the year due to problems in recruiting suitably experienced inspectors.
10. The balance sheet records a net liability position of £258,000 (2006/07 £347,000) due to outstanding creditor balances at year end. The going concern basis of the accounts is not affected by this situation due to continued funding from the Scottish Government, and appropriate disclosure to that effect is made in the accounts.

### 2008/09 Budget

11. Scottish Ministers have agreed a resource budget for SWIA of £4.35 million for 2008/09. The bulk of planned expenditure again relates to employment costs and running costs. The main challenge facing the Agency relates to the recruitment of inspectors, which is again difficult and could lead to an under spend in 2008/09.

## Issues arising from the audit

12. As required by auditing standards we reported to the audit committee on 6 June 2008 the main issues arising from our audit of the financial statements. The key issues reported were:
13. **Appointment of Accountable Officer** – Following previous audit queries on this issue, the Agency was advised by its sponsor department that the current Chief Executive could not be appointed as Accountable Officer for the Agency. This was on the basis that she is a secondee. Since the annual accounts of the Agency were required to be signed by the Accountable Officer, there was some uncertainty as to who that responsibility defaults to under these unusual circumstances. The Agency consulted with the Accountable Officer of its sponsor directorate and has agreed a signing protocol for the annual accounts in circumstances where the Chief Executive is ineligible for appointment as Accountable Officer whereby the directorate Accountable Officer will sign the accounts jointly with the Chief Executive.



14. **Unauthorised expenditure** – In accordance with delegated authorities from its sponsor directorate, SWIA is permitted to spend £10,000 on computer projects without higher approval. SWIA incurred expenditure over this limit in connection with web-site development during 2007/08, but, as the work had been commissioned originally as part of a wider marketing brief, had not applied to the Education Directorate for approval using the formal business plan procedure. Measures have been put in place to improve identification of IT projects so as to ensure they are subject to proper evaluation and approvals.

## Regularity Assertion

15. 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 his view on adherence to enactments and guidance. No significant issues were identified for disclosure.



# Governance

## Overview of arrangements

16. This section sets out our main findings arising from our review of SWIA governance arrangements.

This year we reviewed:

- key systems of internal control; and
- internal audit;

17. 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 9-10). Our overall conclusion is that arrangements within SWIA are sound and have operated through 2007/08.

## Systems of internal control

18. 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 his annual report for 2007/08 the head of internal audit provided his opinion that, based on the internal audit work undertaken during the year, there was substantial assurance on the adequacy and effectiveness on the systems of internal control.

19. As part of our audit we reviewed the high level controls in a number of SWIA systems that impact on the financial statements. Our overall conclusion was that key controls were operating effectively.

## Prevention and detection of fraud and irregularities

20. SWIA has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption, including policies and codes of conduct for staff and Board Members.

## Internal Audit

21. 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 SWIA internal audit function. We concluded that the internal audit service, which is provided by the Scottish Government Internal Audit Division, operates in accordance with the Government Internal Audit Manual and therefore placed reliance on their work in number of areas during 2007/08, as we anticipated in our annual audit plan.



## **Statement on Internal Control**

22. The Statement on Internal Control (SIC) included with SWIA's annual accounts summarises the Accountable Officer's responsibilities for maintaining a sound system of internal control and the measures put in place to achieve this. The internal control systems and governance arrangements have been reviewed by internal audit and found to be generally satisfactory. The findings from our audit work have not identified any matters that are inconsistent with the statements and conclusions recorded in the SIC.

## **Information and Communication Technology**

23. SWIA uses the ICT network operated by the Scottish Government, including SCOTS and SEAS. The network has been reviewed by our Scottish Government audit team. Whilst some areas for improvement have been identified, the review concluded that the main accounting system is operating satisfactorily.



# Performance Management

24. 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.
25. 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

26. 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.
27. 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.
28. 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.
29. 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.
30. 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.



31. Whilst SWIA has individual measures in place to promote continuous improvement and an appropriate balance between quality and cost, it has not yet developed any formal policies or procedures on how it plans to demonstrate Best Value. It is important that the Agency gives consideration to the development of appropriate policies and procedures to ensure it is able to demonstrate the achievement of Best Value principles across its activities. **[Action Plan – Item 1]**

## Efficiency

32. SWIA has been required to deliver a recurring 2% efficiency saving against its financial settlement for the next three years as part of the Scottish Government's Education and Lifelong Learning portfolio efficiency delivery plan. Whilst recognizing that the scale of activities carried out by the Agency offers limited scope for significant efficiency savings, we consider that the application of efficient government principles represents good practice. **[Action Plan – Item 2]**

## Performance Management

33. SWIA's key performance targets are set out in Annex B of its Framework Document and relate mainly to qualitative aspects of its inspection and advisory functions. There are no specific financial targets. The Agency remains on target to complete its review of social work services in all 32 councils by the end of 2008/09, with 12 councils still to be inspected. Its work on delivering criminal justice and multi-agency inspections is also in line with plans.
34. A revised Corporate Plan covering the period 2008/11 is in draft pending the Scottish Government's decision in response to the review of scrutiny bodies and moves the focus of inspections from a cyclical approach to a targeted approach aimed at supporting local improvement.



# Looking Forward

35. SWIA 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 has 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 SWIA 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 for all central government bodies in Scotland. This includes significantly less scope for the application of end of year flexibility within the current Spending Review period; 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. The challenge for SWIA 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. An interim report published in April 2008 made some initial recommendations and a final report is expected soon. We will monitor SWIA's response to the review and action taken as part of our 2008/09 audit.



- **Role of the Audit Committee** – In March 2007 HM Treasury issued revised guidance on the role and composition of Audit Committees in central government. Revised Scottish Government guidance on this subject is currently in draft and should be issued soon. The new guidance provides an opportunity for SWIA to review its own practice in this area in order to ensure that it is complying with the latest guidance. As part of our 2008/09 audit work we will consider the role and effectiveness of the Audit Committee, including compliance with this refreshed guidance.



# Appendix A: Action Plan

## Key Risk Areas and Planned Management Action

Action Point	Risk Identified	Planned Action	Responsible Officer	Target Date
1	<p><b><u>Achieving Best Value</u></b></p> <p>All central government bodies are required to implement the Best Value regime in accordance with guidance issued by Scottish ministers. Whilst SWIA does have individual measures in place to promote continuous improvement and an appropriate balance between quality and cost, it has not yet developed any formal policies or procedures on how it intends to demonstrate its delivery of Best Value.</p>	<p>SWIA will draw up a Best Value plan to bring together the various measures currently being operated to provide Best Value.</p>	A Wilkinson	End December 2008
2	<p><b>Efficient Government targets</b></p> <p>SWIA has been required to deliver a recurring 2% efficiency saving against its financial settlement for the next three years as part of the Scottish Government's Education and Lifelong Learning portfolio efficiency delivery plan. Whilst recognising that the Agency's scope of activities has limited potential for significant savings, the principles involved provide a reasonable framework for improving financial management of resources.</p>	<p>SWIA will deliver a 2% saving against its 2008/09 financial settlement.</p>	A Wilkinson	End March 2009