



Scotland's Commissioner for Children & Young People

Report on the 2008-09 Audit

24 July 2009

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1 Executive Summary

Introduction

We have audited the financial statements of the Scotland's Commissioner for Children & Young People (the Commissioner) for the 2008-09 financial year and examined aspects of the Commissioner's performance and governance arrangements. This report sets out our key findings.

Financial Statements

We intend to give an unqualified opinion on both the financial statements of the Commissioner for 2008-09 and on the regularity of transactions undertaken during the financial year. During the year, the Commissioner incurred resource expenditure of £1.28 million. The Commissioner manages his budget on a cash basis, however, and cash spending of £1.28 million during the year, was £33k less than the funding receivable from the Scottish Parliamentary Corporate Body (SPCB).

Staff costs are the main area of the Commissioner's expenditure and account for 52% of total costs during the year. Other areas of expenditure are administration (41%), legal & professional costs (3%), and depreciation costs (4%).

The Commissioner's draft financial statements and supporting working papers were presented for audit on 29 June 2009 and were of a high standard. This meant that few audit adjustments were required to be made to the accounts.

Our audit of the Commissioner's financial systems confirms that they continue to operate in a sound control environment. We submitted a detailed report to the Commissioner in May 2009 which made 8 recommendations for improving internal control arrangements. All recommendations were accepted by management and none related to high risk observations.

Governance

Overall, we found that the Commissioner's governance arrangements continue to operate well. The Advisory Audit Board and Management Team meetings are used to monitor the organisational risk register, financial performance and progress against the Strategic and Operational Plans.

Our review of both the internal audit function and the reports of the internal auditor confirmed that it complied with Government Internal Audit Standards and, as a result, we have been able to place reliance on their work for the purposes of our audit.

Performance

In 2008-09 the Commissioner submitted written evidence to the Scottish Parliament on a range of issues including, *the inquiry into child poverty in Scotland; Scottish road safety consultation and Improving the lives of children in Scotland - are we there yet?*

The Commissioner also undertook several activities including, jointly published a report on the UN Committee on the rights of children along with the other UK Children's Commissioners, continuing to develop a new website for children and young people and developed a series of downloadable workshops on children's rights.

The Commissioner has not yet, however, developed a strategic approach to monitoring organisational performance and is at the early stages of establishing a best value approach to performance assessment. In particular, the Commissioner has not assessed the outcomes and impact of the activities of his office. The Commissioner is currently in the process of reviewing the office business plan and will consider best value and performance management and reporting arrangements as part of this review.

Looking Forward

The recent review of Commissioners and Ombudsman by the Scottish Parliament has brought forward proposals for consolidation of some existing bodies. The Parliament does not propose a significant change to the operations of the Commissioner but his office should formally consider how it will take forward the relevant recommendations from this review.

We note that the Scottish Parliament has not brought forward specific recommendations to address the issue of personal liability for Commissioners and Ombudsman, but has recognised that a solution is required in relation to this matter. We will continue to monitor developments in this area.

The impact of the economic recession on public sector finances is likely to lead to a reduction in public sector funding for the period from 2010-11. It will become increasingly important for all public bodies to demonstrate economy, efficiency, effectiveness and best value in their operations and the Commissioner should ensure his Office has effective plans in place to address future financial pressures.

All public sector bodies will be required to prepare accounts on the basis of International Financial Reporting Standard (IFRS) for accounting periods from 1 April 2009. The Commissioner will be required to prepare 2008-09 IFRS 'shadow accounts' by end November 2009 in compliance with the Scottish Government's timetable, and should ensure it has effective arrangements in place to prepare full IFRS based 2009-10 accounts.

Next Steps

Our findings and recommendations are summarised in an Action Plan (Appendix A) that accompanies this report. The Action Plan has been agreed with the Commissioner and incorporates the Management Team's 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 to the organisation.

Acknowledgements

We would like to take this opportunity to thank the Commissioner's staff who have been involved in the audit 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 it. 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

24 July 2009

2 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 there under by the Scottish Ministers, on the state of affairs of Scotland's Commissioner for Children and Young People as at 31 March 2009 and of the 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 (FRoM) and directions made there under by the Scottish Ministers
- 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
- information which comprises the management commentary, included with the Annual Report, is consistent with the financial statements.

We also review the Statement on Internal Control by:

- considering compliance with Scottish Government guidance
- considering the adequacy of the process put in place by the Accountable Officer to obtain assurances on systems of internal control assessing whether disclosures in the Statement are consistent with the information emerging from our normal audit work.

Overall Conclusion

We are able to conclude that the Commissioner's financial statements give a true and fair view of the financial position for the period from 1 April 2008 to 31 March 2009 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.

We confirm that information which comprises the management commentary, included with the Annual Report, is consistent with the financial statements.

Standard of accounts and supporting papers

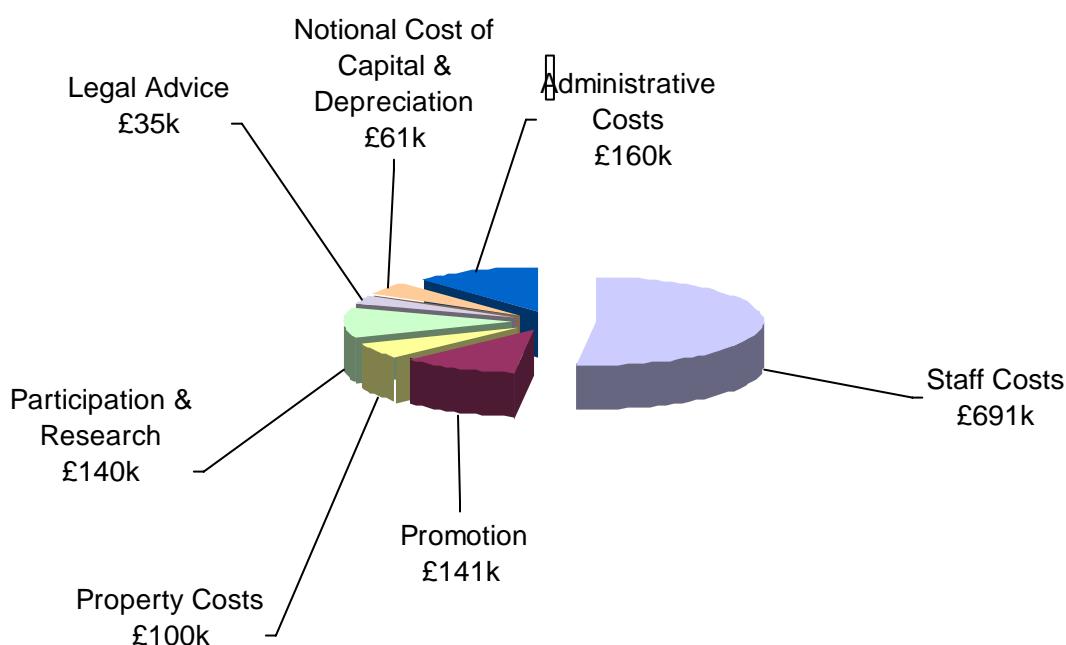
The Commissioner's draft financial statements and supporting working papers were presented for audit on 29 June 2009 and were of a high standard. This meant that few audit adjustments were required to be made to the accounts.

Financial Performance

The Commissioner receives cash funding from the Scottish Parliamentary Corporate Body (SPCB) for his annual budget 2009 - £1,28m (2008 - £1.24m).

Staff costs are the main area of the Commissioner's expenditure and accounted for 52% of total expenditure. Other areas of expenditure are legal and professional costs (3%), depreciation costs (4%) and administrative costs (41%). A more detailed analysis of the Commissioner's 2008-09 expenditure is shown in figure 1 below:

Figure 1 - Analysis of the Commissioner's expenditure



The Commissioner incurred capital expenditure of £2,000 with the purchase of a new camcorder.

Review of systems of financial control

As part of our 2008-09 audit, we reviewed the Commissioner's systems of financial control covering the following key systems:

- budgetary control
- cash and treasury management
- fixed assets
- creditor payments
- payroll
- general ledger

The overall conclusion from our work is that financial systems continue to operate in a sound control environment and can be relied for the purposes of our audit of the financial statements. We submitted a detailed report to the Commissioner in May 2009 which made 8 recommendations for improving internal control arrangements. All recommendations were accepted by management and none related to high risk observations.

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 Government guidance, that the processes put in place by the Accountable Officer (the Commissioner) to obtain assurances on systems of internal control are adequate and that the contents of the Statement are consistent with the information emerging from our normal audit work.

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. Outcomes against the requirements of the Standard are reported in Appendix B to this report.

3 Governance

Introduction

Sound corporate governance is central to demonstrating Best Value, 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. Good governance means:

- focusing on the organisation's purpose and on outcomes for citizens and service users;
- performing effectively in clearly defined functions and roles;
- promoting values for the whole organisation and demonstrating the values of good governance through behaviour;
- taking informed, transparent decisions and managing risk;
- developing the capacity and capability of the governing body to be effective; and
- engaging stakeholders and making accountability real.

Overall Conclusion from our 2008-09 audit

Overall, we found that the Commissioner's governance arrangements continue to operate well. The Advisory Audit Board and Management Team meetings are used to monitor the organisational risk register, financial performance and progress against the operational plan. .

Internal Audit

The internal audit function is a key component of the internal control framework. Each year, we review the work of internal audit to assess whether the scope of the work was sufficient and whether it was conducted in accordance with approved internal audit standards. Internal audit services to the Commissioner were provided by Scott - Moncrieff. After a review of their reports we are satisfied that we were able to place reliance on the work of the Commissioner's internal audit. To avoid duplication of effort and ensure an efficient audit process, we have made use of internal audit work on financial controls and risk management.

Budgetary Control

We noted that the Commissioner has continued to strengthen arrangements for budgetary control. Spend against the budget is closely monitored on a monthly basis at Management Team Meetings. The financial reports prepared monitor committed spend as well as the bank balance at each month end.

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.

As Accountable Officer, the Commissioner has a duty to ensure public resources are used economically, efficiently and effectively. Since April 2002 there has also been a duty on Accountable Officers "to ensure arrangements are in place to secure Best Value."

Strategic Planning

In 2009-10, the new Commissioner will publish his Strategic Plan to cover his first period in office. The Plan will cover 3 key strategic themes and associated outcomes across the following aspects of his operations:

- The organisational structure
- The Commissioner's policy priorities
- A national consultation with Children and Young People in Scotland

The Strategic Plan will assist in the setting of measurable performance targets for the future.

Best value

The Commissioner's office is relatively small, with limited management capacity. The Commissioner is currently undertaking various activities in responding to the Best Value agenda and is committed to delivering efficient, economic and effective services but has not yet developed a formal response plan to best value with clear links to strategic and operational plans.

The Commissioner undertook a range of activities during the year including', jointly publishing a report on the UN Committee on the rights of children along with the other UK Children's Commissioners, continuing to develop a new website for children and young people and developing a series of downloadable workshops on children's rights. In addition, the Commissioner submitted written evidence to the Scottish Parliament on a range of issues including, *the inquiry into child poverty in Scotland; Scottish road safety consultation and Improving the lives of children in Scotland - are we there yet?*

The Commissioner has not yet, however, developed a strategic approach to monitoring organisational performance and, as noted above, is at the early stages of establishing a best value approach to performance assessment. In particular, the Commissioner has not assessed the outcomes and impact of the activities of his office. The Commissioner is currently in the process of reviewing the office business plan and will consider best value and performance management and reporting arrangements as part of this review.

Action Plan 1

5 Looking Forward

Financial position

The impact of the economic recession on public sector finances is likely to lead to a reduction in public sector funding for the period from 2010-11. It will become increasingly important for all public bodies to demonstrate economy, efficiency, effectiveness and best value in their operations and the Commissioner should ensure his Office has effective plans in place to address future financial pressures.

Action Plan 2

Public sector reform

The recent review of Commissioners and Ombudsman by the Scottish Parliament has brought forward proposals for consolidation of existing Commissioner and Ombudsman bodies. In addition the recent Public Sector Reform bill has been brought forward to improve overall scrutiny arrangements within the public sector. These reviews do not propose a significant change to the operations of the Commissioner, but do recommend closer working arrangements between Commissioners more generally. The Commissioner should formally consider how his office will take forward the recommendations from these reviews.

Action Plan 3

We note that proposals have been brought forward by the Scottish Parliament which would result in the Commissioner's Office having a 'body corporate' status. If enacted, this would remove the existing personal liability status of the Commissioner which would improve governance arrangements overall.

International Financial Reporting Standards

All public sector bodies will be required to prepare accounts on the basis of International Financial Reporting Standard (IFRS) for accounting periods from 1 April 2009. In preparing for this, the Commissioner re-stated the 2007-08 balance sheet under IFRS and our audit confirmed that an accrual for employee benefits would represent the only substantive change to the Commissioner's accounts.

The Commissioner will, however, be required to prepare 2008-09 full IFRS 'shadow accounts' by end November 2009 in compliance with the Scottish Government's timetable and should ensure it has effective arrangements in place to prepare full IFRS based 2009-10 accounts. In particular, this will require a review of the format of accounts and accounting policies and disclosures.

Action Plan 4

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24 July 2009

Appendix A - Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
Performance management and best value					
1	The Commissioner has not yet developed a strategic approach to monitoring organisational performance and is at the early stages of establishing a best value approach to performance assessment. In particular, the Commissioner has not assessed the outcomes and impact of the activities of his office.	Medium	The Commissioner should consider performance management, monitoring and reporting arrangements for his office to ensure he can continue to demonstrate best value.	Interim arrangements are being developed around the annual business plan. Further arrangements will be considered in the Strategic Plan for the period 2010 - 2013	August 2009 October 2009
Financial position					
2	The impact of the economic recession on public sector finances is likely to lead to a reduction in public sector funding for the period from 2010-11.	Medium	The Commissioner should ensure his Office has effective plans in place to address future financial pressures.	A revised forecast of budget expenditure for 2009-10 has been undertaken following the appointment of the new Commissioner. The 2010 – 2011 budget will be prepared on a zero based format and reflect the planned programme of work within the Business Plan	September 2009 September 2009

Appendix A - Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
Public sector reform					
3	The recent review of Commissioners and Ombudsman by the Scottish Parliament recommends closer working arrangements between Commissioners more generally.	Medium	The Commissioner should formally consider how his office will take forward the recommendations from the Scottish Parliament's recent review.	The Commissioners have agreed to hold quarterly meetings from August 2009	August 2009
IFRS					
4	The Commissioner is required to prepare 2008-09 full IFRS 'shadow accounts' by end November 2009 and should ensure it has effective arrangements in place to prepare full IFRS based 2009-10 accounts.	Medium	The Commissioner should review arrangements for complying with the Scottish Government's timetable for restating the 2008-09 accounts and preparing 2009-10 accounts under IFRS.	Arrangements are in place for SCCYP to meet the Scottish Government's timetable for the production of 2008-09 IFRS Shadow Accounts.	November 2009

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 Grant Thornton’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.

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

Ref	Area	Key Messages
B	Approach to the audit	<p>Our approach to the audit was set out in our 2008-09 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; • we have been able to place appropriate reliance on the key accounting systems operating at the Commissioner's office for final accounts audit purposes only; and • we have been able to place reliance on the work of internal audit in respect of the key accounting systems.
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> <p>The Commissioner has considered and confirmed his office remains a going concern. The Commissioner is asked to confirm this through the Letter of Representation.</p>
D	Material risks and exposures	<p>The Commissioner has considered and confirmed that his office 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. These are outlined below. There were no material errors that were not adjusted in the accounts.</p>

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

Accounting Issues

Late invoices not recorded

During the course of the audit fieldwork it was identified that there were several instances where expenditure that related to March 2009 was not processed in the correct financial period. The reason for this was that many of the invoices were not received until several months after the expenditure was incurred, and by this time the ledgers had been closed down and the financial statements prepared. The financial statements are prepared on the historic cost basis and therefore all invoices that relate to the financial year should be included in the financial statements.

Summary of adjusted audit differences

This is a summary of unadjusted audit differences found during the course of our audit.

	Income & Expenditure account		Balance Sheet	
	Dr £s	Cr £s	Dr £s	Cr £s
Adjustments affecting reported results				
Prepayments			4,313	
Accruals				(4,313)
Income & Expenditure	402			
Prepayments			836	
Accruals				(1,238)
Total	402		5,149	(5,551)

There are no unadjusted differences to report.