



Scottish Commission for Human Rights

Report on the 2008-09 Audit

2 November 2009

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1 Executive Summary

Introduction

We have audited the financial statements of the Scottish Commission for Human Rights (SCHR) for the 2008-09 financial year and examined aspects of performance and governance arrangements. This report sets out our key findings.

SCHR took on full responsibility for its functions in October 2008 and has faced a significant challenge to set up its office and develop systems of governance and performance during the year. SCHR achieved this key objective is now focussing on ensuring it delivers its key legislative and business objectives.

Financial Statements

We intend to give an unqualified opinion on both the financial statements of the SCHR for 2008-09 and on the regularity of transactions undertaken during the financial year.

Governance

Overall, we found that the SCHR's governance arrangements operated adequately within a generally sound control environment, commensurate with the scale of SCHR's operations.

Performance

As the Commission only effectively became operational in October 2008 we have not undertaken an audit of the SCHR's best value arrangements as part of our 2008-09 audit. We anticipate that the Commission will address its approach to best value as part of their Strategic Plan for 2009-10.

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 the SCHR 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 SCHR's management to decide the extent of the internal control system appropriate to the organisation.

Acknowledgements

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

This report is part of a continuing dialogue between SCHR 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 SCHR'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.

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 thereunder by the Scottish Ministers, on the state of affairs of SCHR 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 (FReM) and directions made thereunder 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 SCHR'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 within the Foreword to the accounts, is consistent with the financial statements.

Standard of accounts and supporting papers

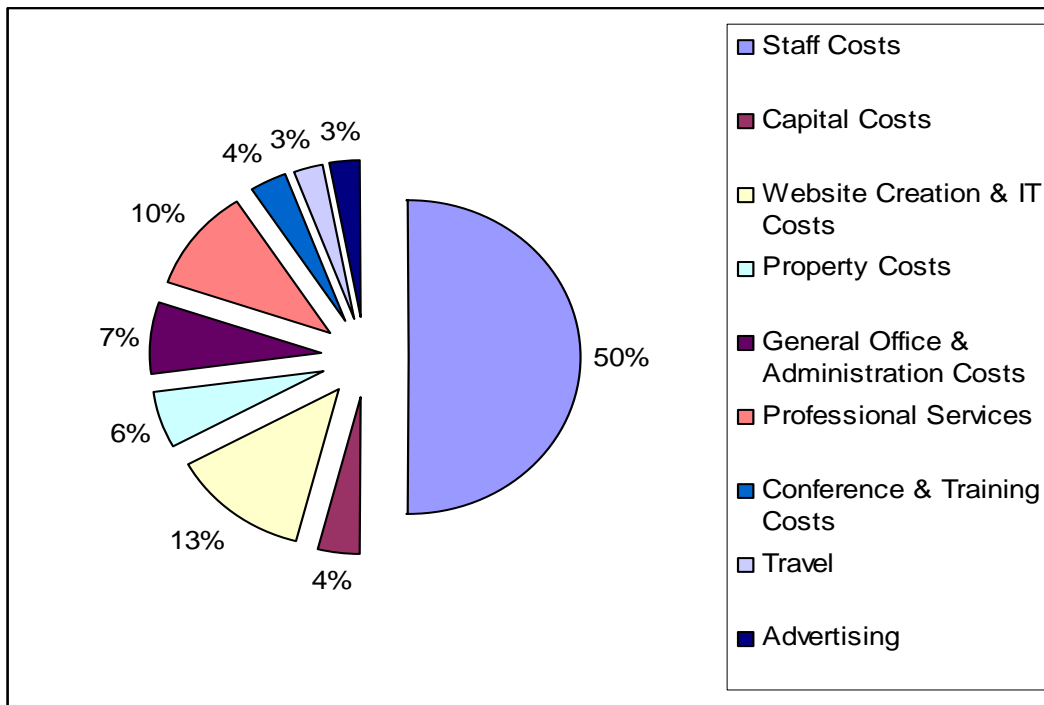
SCHR's draft financial statements were presented for audit on 1 June 2009 in line with the agreed timetable. However, a number of changes to the draft accounts were required to be processed following our audit to correct the accounting period and improve presentation and disclosure.

Financial Performance

The SCHR receives cash funding from the Scottish Parliamentary Corporate Body (SPCB) for their annual budget and manages the budget on a cash basis. Cash spending during the year (which includes expenditure on capital) was £513,000, which was significantly under the £1 million budget awarded by the SPCB. This under spend was predominantly due to the time taken in the initial set up of the office with the majority of staff recruitment not being met until October 2008 meaning operational activity did not fully commence until the last quarter of the financial year.

Staff costs are the one of the main area of the SCHR's expenditure and account for 50% of total costs during the year. Other areas of expenditure are website creation and IT costs (13%), professional services costs (10%), general office and administration costs (7%), property costs (6%) and other costs (14%). See figure 1 below:

Figure 1 - Analysis of expenditure



The level and nature of expenditure is reflective of the initial set up cost of the office and staff recruitment.

Review of systems of financial control

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

- budgetary control
- fixed assets
- payroll

Budgetary Control

The Commission was given an annual budget of £1 million for 2008-09. The Office Manager and Team Managers were responsible for setting the overall budget, which was approved by the Chair and then sent to Parliament.

The Office Manager is responsible for monitoring the budget on a monthly basis and does this by liaising with the Team Managers. During 2008-09, the actual monthly spend was discussed with the Chair, however no comparison was made against budget.

We understand this has been addressed in the current year, 2009-10, and that the Chair is now being presented with monthly management accounts, including commentary on significant variances between actual and budgeted expenditure.

Fixed Assets

Our interim audit included a review of the design effectiveness of controls around fixed assets. We noted that fixed assets were being purchased and delivered directly to employees using personal credit cards and claimed back through employee expenses. We understand this situation arose prior to SCHR opening their own bank account and this solution was adopted on the recommendation of Parliament. In future, we recommend that all fixed assets are purchased via completion of an authorised purchase order and payment made to the supplier directly by the Commission.

During our interim audit SCHR was in the processing of setting up a fixed asset register together with capitalisation and depreciation policies. At the final financial statements audit we noted the fixed asset register has been set up and is being well maintained and reviewed on an ongoing basis. Following our audit we understand the SCHR have now fully documented their capitalisation and depreciation policies.

Payroll

Our interim audit review of the payroll system confirmed that the expected internal controls are in place and working effectively. We understand that, although monthly comparisons against budget and full reconciliations are not performed due to the low number of staff, there are procedures in place for notifying the payroll provider of any changes, and amendments are processed quickly.

The SCHR operates a healthy living and well being policy which is open to all employees. This policy entitles each employee to receive a maximum of £275 per annum towards them taking part in activities that contribute to their physical or mental wellbeing. The policy has been designed to be as flexible as possible, covering a wide range of activities as approved by the SPCB. All applications for healthy living and well being support are approved by the Office Manager.

The overall conclusion from our work is that the financial systems operate in an adequate control environment and can be relied upon for the purposes of our audit of the financial statements. Our findings and recommendations are summarised in an Action Plan (Appendix A) that accompanies this report. The Action Plan has been agreed with the SCHR and incorporates the management team's response to audit recommendations.

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 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
- engaging stakeholders and making accountability real.

As part of our 2008-09 audit we reviewed the SCHR's corporate governance arrangements against best practice within the Scottish Public Finance Manual.

Key findings

This has been the first year of SHRC's operations and the organisation faced a significant challenge to set up and new office and design and implement a range of financial and operational systems within an effective control environment. Our audit confirms that SHRC was generally successful in implementing effective governance arrangements and good financial controls in most of its activities - this represents a significant achievement.

Overall we have concluded that SHRC's governance arrangements operated well within a generally sound control environment, commensurate with the scale of SCHR's operations.

Internal Audit

The SCHR does not operate with an internal audit function as management consider that the size and scale of operations does not require this function. We are satisfied with this approach, although management should review its decision arrangements for internal control at each strategic planning review.

Audit Advisory Board (AAB)

The Scottish Government published its handbook, 'Guidance for audit committee members in the core Scottish Government', on 8 August 2008. We are satisfied that the AAB's current operating practice meets the majority of good practice expectations outlined in the handbook. We will undertake a further review of the AAB's compliance with the handbook following completion of the self-assessment process.

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 for SCHR, the Chair has a duty to ensure public resources are used economically, efficiently and effectively and to ensure 'best value' in the use of resources.

Best value

As noted above, this is the first full year of SHRC's operations and strategic planning and performance management arrangements are not yet fully developed. As a result, we have not undertaken an audit of the SCHR's best value arrangements as part of our 2008-09 audit. SHRC have indicated that they will review their arrangements for formally reporting against performance, best value and efficiency objectives during the 2009-10 financial year. We will review SHRC's progress in this area as part of our 2009-10 audit.

5 The Way 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 and may lead to an increase in the number of enquiries and contacts to the SCHR. It will become increasingly important for all public bodies to demonstrate economy, efficiency, effectiveness and Best Value in their operations and the Chair should ensure his Office has effective plans in place to address future financial pressures.

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.

SCHR will 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.

Grant Thornton UK LLP
2 November 2009

Appendix A - Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
Budgetary control					
1	The Office Manager is responsible for monitoring the budget on a monthly basis and does this by liaising with the Team Managers. During 2008-09, the actual monthly spend was discussed with the Chair, however no comparison was made against budget.	Medium	Monthly management accounts, which include commentary on significant variances, should be prepared for review by the Chair.	SCHR has appointed a third party to prepare monthly management accounts for discussion at Committee meetings.	Implemented
Fixed asset					
2	Fixed assets are purchased and delivered directly to employees using personal credit cards, this capital spend is then claimed back through employee expenses.	Medium	All fixed assets should be purchased via completion of an authorised purchase order and payment made directly to the supplier by the Commission on provision of an agreed invoice.	SCHR opened a bank account during 2009-10 and now has the facility to purchase fixed assets in the manner recommended.	Implemented.

Appendix A - Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
Fixed assets					
3	Capitalisation and depreciation policies are undocumented.	Low	All accounting polices should be established and fully documented.	SCHR have now documented capitalisation and depreciation polices.	Implemented
Performance, management and best value					
4	SCHR is at the early stages of establishing a best value approach to performance assessment.	Medium	SCHR should consider performance management, monitoring and reporting arrangements to ensure that best value, efficiency and performance can be adequately monitored and reported.		
Financial position					
5	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 Chair should ensure his Office has effective plans in place to address future financial pressures.	SCHR will consider as part of its Strategic Plan.	

Appendix A - Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
Public Sector reform					
6	The recent review of Commissioners and Ombudsman by the Scottish Parliament recommends closer working arrangements between Commissioners more generally.	Medium	SCHR should formally consider how it will take forward the recommendations from the Scottish Parliament's recent review.		
IFRS					
7	SCHR 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	SCHR should ensure there are arrangements for complying with the Scottish Government's timetable for re-stating the 2008-09 accounts and preparing 2009-10 accounts under IFRS.		

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.
- 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	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 • we have not performed any non Code of Audit Practice (Code) or advisory work during the year.

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

Ref	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 SCHR's office for final accounts audit purposes only.
C: Accounting policies and practices	<p>We consider that the SCHR 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 Accountable Officer has considered and confirmed the organisation remains a going concern. The Accountable Officer is asked to confirm this through the Letter of Representation.</p>
D: Material risks and exposures	<p>The Accountable Officer has considered and confirmed that his office has no material risks and exposures which should be reflected in the financial statements. The Accountable Officer is asked to confirm this in the Letter of Representation.</p>
E: Audit adjustments and unadjusted errors	<p>We identified several adjustments that management subsequently processed. There were no material errors that were not adjusted in the financial statements. See the following tables.</p>

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

Accounting Issues:

Summary of adjusted audit differences

	Operating cost statement		Balance Sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
Adjustments affecting reported results				
Reallocation of payroll costs	22	(22)		
Omitted prepayment of licence & hosting fee		(5)	5	
Double counted invoices		(3)	3	

Summary of unadjusted audit differences

There are no unadjusted differences to report.