

## Key Issues Memorandum

Scotland's Commissioner for Children and Young People

For the year ended 31 March 2010

FINAL

Gary Devlin  
Engagement Lead  
T 0131 6598554  
E [gary.j.devlin@gtuk.com](mailto:gary.j.devlin@gtuk.com)

Kirsten Tasker  
Audit Manager  
T 0131 6598546  
E [kirsten.tasker@gtuk.com](mailto:kirsten.tasker@gtuk.com)



# Grant Thornton

To the Auditor General for Scotland, the Accountable Officer and Audit Advisory Board (AAB) of Scotland's Commissioner for Children and Young People (SCCYP).

The purpose of this memorandum is to highlight the key issues affecting the results of Scotland's Commissioner for Children and Young People and the preparation of the financial statements for the year ended 31 March 2010. It is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

We take responsibility for this memorandum, which has been prepared on the basis of the limitations set out in 'The small print' (Section 6).

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP

**Grant Thornton UK LLP**  
¼ Atholl Crescent  
Edinburgh EH3 8LQ

T +44 (0)131 229 9181  
F +44 (0)131 229 4560  
DX ED428 Edinburgh  
[www.grant-thornton.co.uk](http://www.grant-thornton.co.uk)

**Chartered Accountants**

Member firm within Grant Thornton International Ltd

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP

A list of members is available from our registered office.

Grant Thornton UK LLP is authorised and regulated by the Financial Services Authority for investment business.

# Contents

1	Executive Summary	1
2	Financial Reporting	2
3	Financial Statements	4
4	Best Value and Performance	6
5	Action Plan	8
6	The small print	9

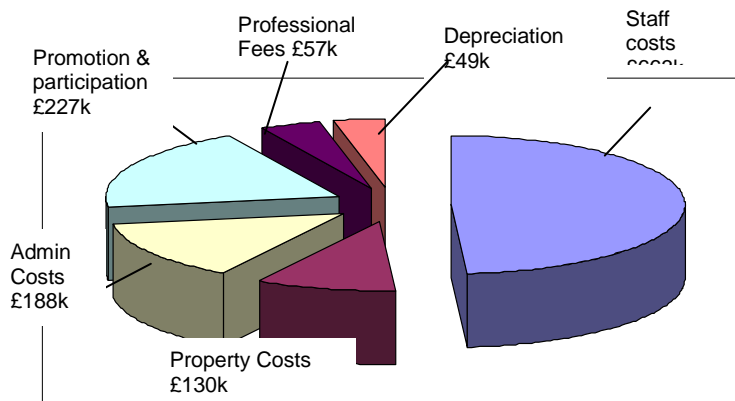
# 1 Executive Summary

<b>Financial Statements</b>	
Audit Opinion	<ul style="list-style-type: none"> <li>We intend to give an unqualified opinion on both the financial statements of SCCYP for 2009-10 and on the regularity of transactions undertaken during the financial year.</li> </ul>
Financial Statements	<ul style="list-style-type: none"> <li>The draft Financial Statements and supporting working papers were presented for audit on the 2 June 2010 and were of a high standard. No audit adjustments were required to be made to the accounts.</li> </ul>
IFRS Conversion	<ul style="list-style-type: none"> <li>SCCYP's 2009-10 accounts are IFRS compliant in accordance with the requirements of the 2009-10 FReM.</li> </ul>
<b>Governance</b>	
Corporate and Strategic Planning	<ul style="list-style-type: none"> <li>Although in development, the Commissioner's revised arrangement for internal governance has delivered a coherence both in terms of strategic planning and engagement with stakeholders.</li> </ul>
<b>Best Value and Performance</b>	
Delivering Budget Savings	<ul style="list-style-type: none"> <li>The Commissioner has been asked to deliver a 15% real terms cut in its budget by 2013-2014. This presents a significant challenge for a small organisation. SCCYP is working with the SPCB and other Commissioner and Ombudsman bodies to identify how savings can be achieved.</li> </ul>
Developing a Performance Framework	<ul style="list-style-type: none"> <li>The Commissioner's template workplan for each of the functions of the organisation provides a good basis for future performance management. There is, however, scope to use outcomes and targets both within team workplans, and in the development of the 2011-14 Strategic Plan.</li> </ul>

## 2 Financial Reporting

### 2.1 Financial Statements

	2010 £'000	2009 £'000
<b>Net operating cost</b>	(1,353)	(1,330)
<b>Financing:</b>		
Interest receivable	-	3
Other income	-	19
<b>Surplus / (deficit)</b>	(1,353)	(1,308)



### Operating Cost Statement

SCCYP reported a net operating cost of £1,353k, an increase from 2009 of £45k. This increase mainly arose as a result of additional property costs totalling £30k due to the refurbishment of the office at Holyrood Road. There has also been extra spend included in promotion & participation due to the national consultation undertaken in the year. As well as these two factors, added costs for professional fees in light of recent rent review negotiations has resulted in a cost increase of £22k. SCCYP management are currently examining options for cost reduction as part of an SPCB wide review of the costs of Commissioners and Ombudsman.

### Expenditure in 2009-10

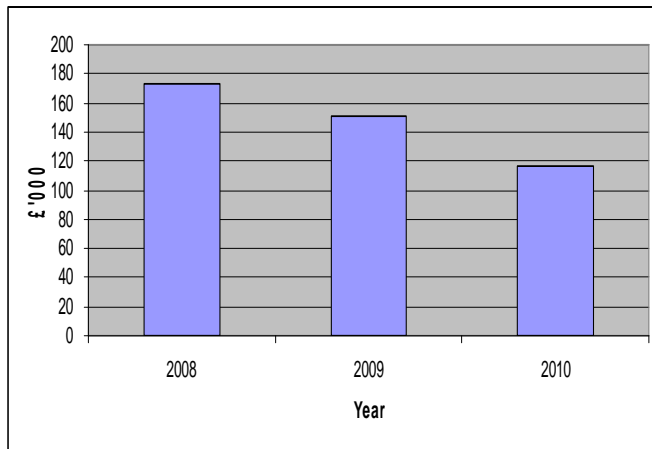
The main costs in the year are in terms of staff costs which represent almost 50% of total costs. Staff costs as a proportion of total costs has reduced in the year from 52% in 2009. This reflects the fact that there were 4 leavers in the year who were replaced by staff members starting on lower starting salaries. The appointment of a new Commissioner in the year has also decreased staff costs a further £10k.

Expenditure on the Promotion & Participation service has increased by around £13k (5%) in comparison to the prior year. The increase is due to the national consultation which is required to occur every few years. The 'Right Blether' project tours the country in order to communicate with children and young people about their rights. This has involved further promotional materials, event costs and travel expenses.

As mentioned above, there are also additional costs relating to property expenditure, being 10% of total costs in 2010 compared to only 7% of total costs in 2009. An office refurbishment took place in the year, including additional work on repairing the office air conditioning unit.

**2.1 Financial Position**

**General Fund Reserves**



**General Fund Reserves**

Our Audit Approach Memorandum identified the risk that the current economic recession will result in public spending cuts, which could lead to a significant decline in funding available to SCCYP. SCCYP have been informed that the likely impact is around a 15-20% reduction in available funding in the following 3 years.

The trend over the past few years shows a steady reduction in the General Fund which highlights a risk that, in the context of inflationary pressure on staff, office and service costs, the relative impact of decreased public funding will be more significant. SCCYP, as a small public body with costs largely relating to staff, is likely to find it challenging to meet cost reduction targets and maintain current levels of activity.

Funding of £1,350k has already been approved for the year 2010-11, therefore it will be in the following year to 2012 that the larger cuts will commence. The client has provided evidence this year of under-spend (mainly in relation to reduction in staff costs) and therefore are hopeful that they can continue this trend into the future.

## 3 Financial Statements

### 3.1 Introduction

In the conduct of our audit, we have not had to alter or change our audit plan, which we communicated to you in our Audit Approach Memorandum.

Our response to the matters identified at the planning stage and throughout the course of the audit are detailed below.

#### Status of audit

The draft Financial Statements and supporting working papers were presented for audit on the 2 June 2010 and were of a high standard. This meant that no audit adjustments were required to be made to the accounts.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the financial statements

### 3.2 Audit opinion

We intend to conclude that SCCYP's financial statements give a true and fair view of the financial position for the period from 1 April 2009 to 31 March 2010 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.

### 3.3 Matters identified at the planning stage and throughout the course of the audit

	Issue	Auditor response
1	<p><b>Financial position</b></p> <p>The economic recession is likely to result in significant cuts in public sector funding as the UK Government faces material reductions in tax receipts, higher welfare payments and higher loan repayment costs. In the Scottish public sector, estimates indicated a potential reduction of between 5% and 15% in public sector funding from 2011-12. We noted that the Commissioner should ensure that the financial model, budgeting, forecast and risk assessments all consider these issues.</p>	<p>We have reviewed the financial position of SCCYP at section 2.2 and have concluded that in the entity will have sufficient funding for the subsequent year. In the years to follow it is expected that funds will be cut to around 15-20% therefore cut backs will be required to be budgeted for in the coming years.</p> <p>The budgeting process is carried out far in advance by the office manager, with much input from the remaining key staff members. As the actual spend in the year was only £12k below budgeted, we can place significant comfort over the budgeting process.</p> <p>The 2010-11 budget has already been submitted and approved for spend of £1305k, of which a detailed review of expected expenditure has been provided.</p>

	<b>Issue</b>	<b>Auditor response</b>
2	<p><b>International Financial Reporting Standards (IFRS)</b>            Central government bodies are required to prepare their accounts on the basis of IFRS from 2009-2010. In readiness for this, the Commissioner prepared an opening 2008 IFRS-based balance sheet which we have already reviewed and reported on. The Commissioner has also produced full shadow IFRS accounts for 2008-09 by the due date of 30 November 2009.</p>	<p>We have carried out an audit of the draft 2009-10 IFRS accounts against the requirements of the 2009-10 FReM. There were a few disclosure points to be amended but no material errors were identified.</p>
3	<p><b>Rent Review</b>            SCCYP has been located in premises at Holyrood Road since 2004. A rent review took place which proposed an increase in rent of 30% to total £65k plus VAT annually. It was felt that this increase was extreme considering the economic climate at present. An agent is current employed to negotiate with the landlord and in the meantime rent is being paid at the historic rate.</p>	<p>Negotiations are continuing at present and a reduced value has been proposed by the landlord which is currently being further investigated by the Commissioner.</p> <p>We have proposed that a contingent liability is included in the financial statements.</p>



## 4 Best Value and Performance

### 4.1 Introduction

All public bodies in Scotland have a duty to secure Best Value and continuous improvement. The public sector is facing a period of significant financial austerity, with budget cuts likely to be in the region of 12-13% in real terms by 2013-14. Each of the SPCB supported bodies has been notified that their share of the budget cuts is likely to be more demanding, at around 15-20% of the budget by 2013-14. In many areas this means that the current level of service provision is unsustainable. Public pressure to deliver services as efficiently and cost effectively as possible means that being able to demonstrate that the organisation delivers Best Value is more important than ever.

### 4.2 Corporate and Strategic Planning

The first Commissioner for Children and Young People in Scotland left at the end of her appointment in April 2009. The current Commissioner took up post in May 2009 and appointed a Chief Officer to help shape strategic planning and ensure the office is as effective as possible.

SCCYP's broad strategic aims are set out in the Act, but the Commissioner is refining the focus of the organisation to inform the 2011-14 Strategic Plan. In the interim, the Commissioner submitted a workplan to the SPCB with the 2010-11 budget. Since taking office, the Commissioner has also started strategic reviews across the organisations main functions:

- Communications
- Participation
- Policy

The outcomes of these reviews include the drafting of a Communications Strategy, a restructuring of the Participation scheme and the development of a workplan for the Policy Team. The Policy Team workplan sets out the key functions of the team, objectives, key milestones and outputs. This template will be used to develop workplans for other teams within the office, and lends itself to providing a direct link between individual team objectives, and the strategic aims of the organisation.

Four strategic aims and objectives have been drafted following a staff away day in March 2010. These will be used to inform the 2011-14 Strategic Plan. The Commissioner must also ensure that the Strategic Plan sets measurable outcomes and targets that will allow him to demonstrate impact in future years.

#### Refer to Action Plan Point 1

Although the strategic planning framework is still in development, the approach that has been adopted has provided a coherence and clear line of accountability throughout the organisation and represents a significant improvement in internal governance arrangements. The Chief Officer has recently announced that he will be leaving the organisation. Steps must therefore be taken to ensure that this impetus for organisational change and development is not lost.

### 4.3 Engagement with Stakeholders

One of the key strands of the Commissioner's approach strategic planning is consultation and engagement with stakeholders. A key achievement in the year has been the implementation of *A Right Blether*, SCCYP's national consultation exercise. The exercise has a number of aims and objectives. Firstly, the Commissioner hopes to raise awareness and understanding, both of his office and of the UN Convention on the Rights of the Child

(UNCRC). The consultation will also ensure that the views of stakeholders including children and young people inform the Commissioner and feed into the 2011-14 Strategic Plan. It is hoped that the exercise will also lead to a sustainable network of partners with whom the Commissioner can consult over time.

A schools pack on *A Right Bletcher* has been prepared, along with materials for schools such as a DVD. The Commissioner aims to visit every local authority in Scotland twice before a national vote in November to mark the 21st Anniversary of the UNCRC.

The Commissioner also works with other organisations and partners to engage with children and young people. Examples include forums for the Youth Parliament, using Young Scot technology portals and GLOW chatroom facilities, and the Children's Rights Officers Network. This work will form part of the Communications Strategy and will ensure that the Commissioner reaches as many children and young people as possible with increasingly scarce resources.

The "Being Young in Scotland" Youth Link survey provides a benchmark for awareness of the Commissioner and the UNCRC. SCCYP will therefore be able to measure the success of consultation when the survey is repeated in two years time.

#### **4.4 Delivering Efficiencies**

The scale of budget cuts required to be found by SPCB supported bodies means that the current way of working is no longer viable. The SPCB has facilitated working groups to allow the Commissioner and Ombudsman office holders to work together to improve efficiency and best value in terms of shared services and accommodation.

SCCYP had begun working collaboratively on procurement with the SPCB in advance of the budget announcement. However, the Commissioner now needs to review each function of the organisation to assess whether further savings can be made. In its *Improving Public Sector Efficiency* Report<sup>1</sup>, Audit Scotland note that there is scope for public sector

bodies to make significantly greater improvements in efficiency than have been achieved to date, and the need to do so is increasingly pressing.

Audit Scotland has produced a good practice checklist designed to challenge and support public bodies in making efficiency improvements. This approach may help SCCYP identify further areas for improvement, for example by focusing service reviews to ensure that each area of the business contributes to the key priorities identified within the Strategic Aims.

#### **Refer to Action Plan Point 2**

<sup>1</sup> Improving Public Sector Efficiency, Audit Scotland, February 2010

## 5 Action Plan

	Issue and risk	Assessment	Recommendation
1	<p><b>Outcome focused indicators</b></p> <p>The 2011-14 Strategic Plan is still in development. A template workplan for functions within the organisation is in place but there is scope to improve the format further by making use of outcome measures and key performance indicators.</p>	Medium	<p>The Commissioner must also ensure that the Strategic Plan sets measurable outcomes and targets that will allow him to demonstrate impact in future years.</p> <p><b>Management Response:</b></p> <p>The Strategic Planning process for 2011-2014 has already identified the Strategic Aims, Objectives and Actions to be undertaken. The development of measurable outcomes is underway and will be completed as part of the statutory requirement to lay the plan before Scottish Parliament by March 2011.</p>
2	<p><b>Improving Efficiency Good Practice Checklist</b></p> <p>Audit Scotland has produced a good practice checklist designed to challenge and support public bodies in making efficiency improvements.</p>	Medium	<p>The Commissioner should use the good practice checklist to identify areas for continuous improvement. This may be helpful in focusing service reviews, such as the planned review of the Policy function, to ensure that services are delivered as efficiently as possible.</p> <p><b>Management Response:</b></p> <p>A review has already been conducted of the Communication and Participation functions. It is the intention to review Policy function on 2010-2011 in line with the recommendation to use the good practice checklist.</p> <p>In addition, it is expected that all functions will require to be under continuous review as the office responds to the progressive restrictions in terms of budgets for 2011-2014.</p>

## 6 The small print

### Purpose of memorandum

This Key Issues Memorandum has been prepared for the benefit of discussions between Grant Thornton the Accountable Officer and the Audit Advisory Board.

The purpose of this memorandum is to highlight the key issues affecting the organisation's results and the preparation of the financial statements for the year ended 31st March 2010.

This document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

We would point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of SCCYP.

This memorandum is strictly confidential and although it has been made available to management to facilitate discussions, it may not be taken as altering our responsibilities to SCCYP arising under our audit engagement letter.

The contents of this memorandum should not be disclosed to third parties without our prior written consent.

### Responsibilities of the Accountable Officer and auditors

The Accountable Officer is responsible for the preparation of the financial statements and for making available to us all of the information and explanations we consider necessary. Therefore, it is essential that the Accountable Officer confirms that our understanding of all the matters in this memorandum is appropriate, having regard to their knowledge of the particular circumstances.

### Clarification of roles and responsibilities with respect to internal controls

The Accountable Officer is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the Board that he has done so.

The Board is required to review the body's internal financial controls. In addition, the management is required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk.

The Board should receive reports from management as to the effectiveness of the systems they have established as well as the conclusions of any testing conducted by internal audit or ourselves.

We have applied our audit approach to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you.

In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive

special examination might identify.

We would be pleased to discuss any further work in this regard with the management.

In accordance with best practice, we analyse our fees below:

	£
Audit	16,000

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- the form of reports expected