



INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

Scottish Criminal Cases Review Commission

Annual audit report to Scottish Criminal Cases Review Commission
and the Auditor General for Scotland

Year ended 31 March 2010

16 June 2010

AUDIT

The contacts at KPMG in connection with this report are:

Stephen Reid

Director
Tel: 0131 527 6795
Fax: 0131 527 6666
stephen.reid@kpmg.co.uk

Brian Curran

Manager
Tel: 0141 300 5631
Fax: 0141 204 1584
brian.curran@kpmg.co.uk

Lyn MacCallum

Assistant manager
Tel: 0141 300 5546
Fax: 0141 204 1584
lyn.maccallum@kpmg.co.uk

- Executive summary
- Introduction
- Financial statements
- Use of resources
- Governance and accountability
- Performance
- Action plan

About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of the Scottish Criminal Cases Review Commission and is made available to Audit Scotland (together "the beneficiaries"), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes, but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

Financial statements

On 16 June 2010 we issued an unqualified audit opinion on the financial statements of the Scottish Criminal Cases Review Commission ("the Commission") and on the regularity of the transactions in these financial statements for the year ended 31 March 2010.

The Commission has now transitioned to International Financial Reporting Standards as interpreted by the government financial reporting manual ("IFReM"). A provision has also now been recognised in relation to lease dilapidation costs.

Procedures are in place to ensure the regularity of transactions and discussions are held on key guidance from the Commission's Scottish Government sponsor division, as well as other relevant laws and regulations.

Use of resources

At 31 March 2010 net operating costs were £1.05 million. This was above the revised budget by £14,000, largely due to the recognition of the lease dilapidation provision. The budget for 2010-11 shows a reduction in allocation of £50,000. Efficiency savings of £72,000 were achieved in 2009-10, equivalent to 6% of expenditure and ahead of target.

Corporate governance

The statement of internal control does not disclose any material weaknesses in the Commission's systems of internal control. The content of the statement of internal control is in line with our understanding of the Commission.

Internal audit's annual report concluded that there was "*substantial assurance on the risk, control and governance arrangements established*".

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice* ("The Code"). This specifies a number of objectives for our audit.

Audit framework

This year was the fourth of our five-year appointment by the Auditor General for Scotland as external auditors of Scottish Criminal Cases Review Commission ("the Commission"). This report to the Commission and Auditor General provides our opinion and conclusions and highlights significant issues arising from our work. We outlined the framework under which we operate, under appointment by Audit Scotland, in the audit plan overview discussed with the audit committee earlier in the year.

The purpose of this report is to report our findings as they relate to:

- the **financial statements** and our audit opinions on net operating costs and the regularity of transactions;
- **use of resources**, including financial outturn for the year ended 31 March 2010 and financial plans for 2010-11 and beyond;
- arrangements around **governance and accountability**, including risk management, partnership working and our consideration of the work of internal audit; and
- **performance management** and the Commission's arrangements to achieve efficiency savings.

Best Value

Audit Scotland and the Scottish Government have been committed to extending the Best Value audit regime across the whole public sector for some time now, with significant amounts of development work having taken place during the last year. Using the Scottish Executive's nine best value principles as the basis for audit activity, Audit Scotland selected five areas as priority development areas (use of resources, governance and risk management, accountability, review and option appraisal, and joint working). A series of toolkits covering financial, performance and governance processes have been developed. There is no mandatory requirement for toolkits to be applied in central government bodies in 2009-10. Management continue to consider Best Value on a regular basis. The Commission's Best Value model is due to be reviewed by December 2010.

International financial reporting standards

The 2007 Budget announced that central government and health bodies would report under international financial reporting standards ("IFRS"), as adapted by HM Treasury through the financial reporting manual ("IFReM"). The financial statements for the year ended 31 March 2010, including comparative figures for 2008-09, were prepared on the basis of the IFReM.

Responsibilities of the Commission and its auditors

External auditors do not act as a substitute for the Commission's own responsibilities for putting in place proper arrangements to account for the stewardship of resources made available to it and its financial performance in the use of those resources, to ensure the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the effectiveness of those arrangements and, through the accountable officer, to make arrangements to secure Best Value.

Action plan

This report includes an action plan containing areas for development or improvement identified during our financial statements audit fieldwork.

Acknowledgement

We wish to record our appreciation of the continued co-operation and assistance extended to us by your staff during our work.

Priorities and risk framework

As part of fieldwork we held discussions with management to gain an understanding of how it is addressing issues included in the Priorities and Risks framework ("PRF") audit planning tool developed by Audit Scotland. Our findings are summarised below.

Management focus on identifying **cost and efficiency savings** as part of the budget setting process. Management have put in place new reporting mechanisms to record efficiencies achieved in **procurement**. The Commission is considering ways in which to achieve **operating efficiencies** and is also currently reviewing the technical capabilities of the case management system.

The three year corporate plan guides and helps to identify / manage risks in relation to **sustainability**. The Commission uses the budget setting process to manage the financial position and ensure continued support from the sponsor team. Management has developed a new training process to ensure the continued development of its people. To take account of the **environmental agenda**, the Commission has appointed an environmental officer and established policies in this area.

The Commission has existing policies and procedures for **risk management**, including a register of risks which is regularly discussed at board level. Going forward, management is considering an amendment to the framework.

A new business plan will be introduced for 2010-11 which will 'close the gap' in **performance management**. Prior to this, there has been no link between the strategic plans of the Commission and its business goals. The intention is that responsibility for implementation of the plan will be assigned across the Commission.

An information security review was performed during 2009-10 to assess areas for improvement. Physical and IT security were considered strong, however no **business continuity plan** is in place, an issue management are looking to rectify during 2010-11.

The **governance structure** is driven by the policies and procedures at the Commission. There are regular meetings of the board and audit committee who review the long and short-term goals and direction of the Commission. In 2008-09, internal audit recommended that the audit committee should meet more regularly to comply with Scottish Government guidance. The audit committee has agreed to meet prior to board meetings, when necessary.

The Best Value model guides continuous **challenge and improvement**. The Commission's commitment to **partnership working** is demonstrated by the link established with the Criminal Cases Review Commission for England, Wales and Northern Ireland, which is acting as an exchange programme for best practice.

We highlight over the page some of the areas of good practice identified throughout the PRF process and some risk which will require continued focus by management.

Risk management: The risk register maintains details of risks at operational and strategic levels and is regularly on the board's agenda.

Challenge and improvement: Continued partnership working and information exchange with the Criminal Cases Review Commission for England, Wales and Northern Ireland, will support the focus on best practice. The completion of a full Best Value review during 2010-11 will also challenge current practices and procedures.

Sustainability: The Commission's environmental officer will contribute to the sustainability agenda.

Performance management: The absence of a business plan for 2009-10 resulted in a risk that strategic goals were not achieved. Management have established a plan for 2010-11.

Asset management / information security: The absence of a business continuity plan risks the security of information and ongoing business at the Commission. Management is currently aware of the risk and a business continuity plan is currently under development and being reviewed by the independent information security consultants appointed by the Commission.

We have issued unqualified opinions on the financial statements and the regularity of transactions reflected in those financial statements.

The key issues identified in our audit plan (implementation of IFRS and property leases) have been reviewed and the treatment applied is considered appropriate.

We have not identified any further issues during our procedures.

Reporting arrangements and timetable

The draft financial statements were available for audit on 13 May 2010 in line with previous years. The quality of information provided was to a high standard. The audit was completed in a timely manner and the financial statements were approved on 11 June 2010.

Audit opinion

Following approval we issued an audit report expressing unqualified opinions on the financial statements for the year ended 31 March 2010 and on the regularity of transactions reflected in those financial statements.

Key issues arising during our audit of the financial statements

Our audit plan overview narrated two potential key risk areas and we have concluded our work in each area and summarise the results below.

Property lease

During 2009-10 management considered the terms of the property lease for Portland House which is due to expire in 2014. Under the terms of this lease the Commission is required to return the premises to the landlord in a specified condition. An estimate was obtained for the costs of returning the property to the required condition and a provision of £15,000 has been established to account for this cost over the remaining life of the lease in line with IFRS.

Compliance with IFRS as interpreted by the IFReM issued by HM Treasury

As part of the transition to IFRS we performed a review of the shadow financial statements and reported findings in February 2010. Our report included recommendations in a number of areas, each of which has now been addressed. The main change as a result of the move to IFRS has been the overall format of the financial statements. An adjustment has also been made to account for untaken annual leave.

Regularity; prevention and detection of fraud and irregularity; risk management

Regularity of transactions

In reviewing the regularity of expenditure, we updated our understanding over the processes which have been established to receive Scottish Government circulars, register, allocate and distribute responsibility for action points and monitor and follow up these action points.

We have considered the requirements of a number of different financial circulars particularly those in relation to remuneration, and did not identify any instances of non-compliance.

Fraud and irregularity

The Commission's approved fraud policy identifies specific responsibilities for the prevention and detection of fraud. The Commission also has an approved public interest disclosure reporting policy, which complies with the requirements of the Public Interest Disclosure Act 1998.

Management did not identify any instances of fraud or irregularity during the year. During our audit of the financial statements we did not identify any known or suspected instances of fraud or irregularity.

Service organisations

Our audit approach is tailored to reflect the Commission's arrangements whereby accountancy services are provided by the Scottish Government.

Risk management

During 2009-10, management engaged a third party to perform an accreditation review of the Commission's information systems. The purpose of this was to:

- inform the board of the risks to the organisation's information systems and detail countermeasures to reduce the risk to a level acceptable to the business; and
- provide assurance to partner organisations – such as the Police Service, the Crown Office and Procurator Fiscal Service – and the Scottish Government.

This review assessed the Commission's arrangements against a detailed list of risks, applying a 'RAG' rating to each (Red, Amber, Green). The result was a number of risks assessed as Amber or Red, i.e. medium or high level risks. An action plan has been developed in relation to all high and medium level risks and progress against the action plan will be reported to the board.

The financial statements show net operating cost of £1,050,233, a surplus of £162,727 against the 2009-10 Scottish Government funding target of £1,213,000.

The budget for 2010-11 shows a reduction in allocation of £50,000 to £1,164,000.

Financial position

Performance against the two financial targets was as follows:

£'000	Budget (£'000)	Outturn (£'000)	Variance (£'000)
Revenue expenditure	1,213	1,050	163
Capital expenditure	7	7	-

The Commission's net operating costs for the year were £1,050,233 against a revised budget of £1,213,000.

The Commission surrendered funds of £185,000 during the year due to a planned underspend of resources. The main reason for the underspend was reduced staff costs as the Commission operated with 12 staff during the period rather than the 14 staff assumed in the budget. The budget for 2010-11 includes a full complement of 14 staff as this is the level management believe is required to operate effectively. In addition, members' fees were lower than anticipated as it was difficult to predict the level of cost given the number of new members appointed at the start of the year. Capital expenditure during the period was in line with budget.

The Commission achieved efficiency savings of £72,000, equivalent to 6% of expenditure in the year, which was in excess of the target of 2%. This does not include underspends in members fees and staff costs.

Financial planning

A budget of £1,164,000 was approved for 2010-11. In preparing the 2010-11 budget, the Commission is aware of the continued need to generate efficiencies. Some cost savings were achieved in 2009-10 as the Commission streamlined procurement, however additional savings are forecast for 2010-11. Areas of continued focus include legal, stationery and hospitality.

Key risks

Achievement of the 2010-11 financial plan will be challenging due to the reduction in the approved budget. While the outturn for 2009-10 was below the approved budget for 2010-11, there is still the risk that costs in 2010-11 exceed budget. The diagram below summarises the key risks identified by management, together with additional risks identified during our audit work.

Key risks identified by management	Key risks identified by KPMG
<ul style="list-style-type: none"> A key focus of the Scottish Government is efficiencies on costs. Management are planning to monitor cost savings achieved going forward. 	<ul style="list-style-type: none"> There is the risk that if case load should increase or if an individually significant new case should arise that the Commission has insufficient resource to meet requirements.

The statement of internal control does not identify any significant weaknesses in the systems of internal control. The content of the statement is consistent with our understanding of the Commission.

In line with last year's findings, internal audit concluded that there was substantial assurance on the risk, control and governance arrangements established by the Commission.

Overall the majority of key financial controls are designed and operating effectively and are compatible with the size of the organisation.

Introduction

Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all bodies.

Through its chief executive, the Commission is responsible for establishing arrangements for ensuring the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. The *Code* requires auditors to review and report on corporate governance arrangements as they relate to:

- the Board's reviews of its systems of internal control, including its reporting arrangements;
- the prevention and detection of fraud and irregularity; and
- standards of conduct and arrangements for the prevention and detection of corruption.

Governance framework

The Commission's corporate governance framework was established in line with the management statement and associated financial memorandum with the Scottish Government. The management statement sets out the broad framework within which the Commission should operate. It details the responsibility and accountability of the Scottish Ministers, the chair of the Commission and the Commission's accountable officer. The financial memorandum sets out financial provisions in greater detail.

The Commission's board currently operates with eight members appointed by Her Majesty The Queen on the recommendation of the Scottish Ministers. The Ethical Standards in Public Life etc (Scotland) Act 2000 required the implementation of a code of conduct for board members, outlining their responsibilities. In line with the model code, the Commission's code contains rules of conduct on:

- general conduct;
- registration and declaration of interests;
- lobbying and access to members of public bodies; and
- political activity.

The register of interest of members is updated twice annually and is made available for review on the Commission's website.

We considered the Commission's corporate governance arrangements, which, combined with the work of internal audit, allowed us to conclude that, the corporate governance framework has been designed and implemented appropriately.

Corporate governance arrangements (continued)

Internal audit

Internal audit completed their plan for the year and presented their annual report to the audit committee on 11 June 2010. A total of four recommendations were made, three of which related to the board.

The report concluded that they could provide “*substantial assurance*” on the risk, control and governance arrangements in place. No areas of ‘higher risk’ were highlighted by internal audit.

Internal controls

Our testing, combined with that of internal audit, of the design and operation of controls over significant risk points confirms that, in general, controls are designed appropriately and operating effectively.

The statement on internal control provides details of the purpose of the system of internal control, the risk and control framework and the effectiveness of this framework. The statement complies with applicable guidance.

Audit Scotland national reports

Audit Scotland periodically undertakes national studies on topics relevant to the performance of central government bodies. While the recommendations from some of the studies may have a national application, elements of the recommendations are also capable of implementation at local level, as appropriate.

In February 2010 we reported action taken by management in response to the following reports:

- Improving civil contingency planning;
- Scotland's Public finances: preparing for the future; and
- Improving public sector purchasing.

We reported that self-assessments had been performed in relation to the second and third of these reports, but that they had not been discussed at board or committee level. We note that this is in line with management's policy.

In August 2010 we expect to report on management's response to the following reports:

- Protecting and improving Scotland's environment; and
- Efficient government programme 2008-11.

The Commission's policy is for national reports to be considered by the director of corporate services for applicability and for any issues / action plans to be progressed. Audit Scotland consider that national reports should be noted or considered at board or committee level where there may be recommendations capable of implementation at local level.

Recommendation one

Appendix one – action plan

Priority rating for recommendations

Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the Commission or systems under consideration. The weakness may therefore give rise to loss or error.

Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.

Grade three (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the controls to meet their objectives in any significant way. These are less significant observations than grades one and two, but we still consider they merit attention.

No.	Issue and recommendation	Management response	Officer and due date
1	<p>Audit Scotland periodically undertakes national studies on topics relevant to the performance of central government bodies with recommendations that may be capable of implementation at local level. The current process at the Commission is for these reports to be considered by the director of corporate services and actioned where it is considered appropriate.</p> <p>We recommend that Audit Scotland national reports are considered at board / committee level where appropriate.</p> <p><i>(Grade three)</i></p>	<p>Agreed.</p> <p>Audit Scotland national reports will be copied to the board as standard and put on meeting agendas where appropriate.</p>	<p>Director of Corporate Services</p> <p>Immediate.</p>