

## Key Issues Memorandum

Scottish Commission for Human Rights

For the year ended 31 March 2010

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# Grant Thornton

To the Auditor General for Scotland and the Scottish Commission for Human Rights (SCHR)

The purpose of this memorandum is to highlight the key issues affecting the results of the Commission 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 7).

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

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# 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 the SCHR 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 of a good standard. Adjustments made to the draft accounts following our audit decreased net operating expenditure by £19.6k</li> </ul>
IFRS	<ul style="list-style-type: none"> <li>SCHR's accounts are fully IFRS compliant</li> </ul>
<b>Governance</b>	
Governance	<ul style="list-style-type: none"> <li>Overall, SCHR has good governance arrangements in place.</li> </ul>
Advisory Audit Board	<ul style="list-style-type: none"> <li>We reviewed the AAB against good practice principles within the Audit Committee Handbook, and identified scope to improve compliance with good practice guidelines.</li> </ul>
Communications Strategy	<ul style="list-style-type: none"> <li>Stakeholder engagement has been a key strength of the SCHR since its inception. The development of a Communications Strategy would further improve arrangements in this area.</li> </ul>
<b>Performance</b>	
Performance Management	<ul style="list-style-type: none"> <li>The Commission achieved its key strategic objectives for the year. There is scope for performance indicators to be more outcome focussed.</li> </ul>

## 2 Financial statements

### 2.1 Introduction

SCHR is required to produce financial statements under an Accounts Direction issued by the Scottish Ministers. The Accounts Direction requires SCHR to prepare its financial statements in line with the accounting principles and disclosure requirements of the 2009-10 FReM.

We audit the financial statements and give an opinion on whether they give a true and fair view. Our opinion also covers whether 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.

We also review the Statement on Internal Control and consider SCHR's compliance with Scottish Government guidance, the adequacy of the process put in place by the Accountable Officer to obtain assurances on systems of internal control and assess whether disclosures in the Statement are consistent with the information emerging from our normal audit work.

We intend to give an unqualified opinion on both the financial statements of SCHR for 2009-10 and on the regularity of transactions undertaken during the financial year.

### 2.2 Status of audit

The draft Financial Statements and supporting working papers were presented for audit on the 5th July 2010 and were of a good standard. 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 responses to the matters identified at the planning stage are detailed in section 2.5 below.

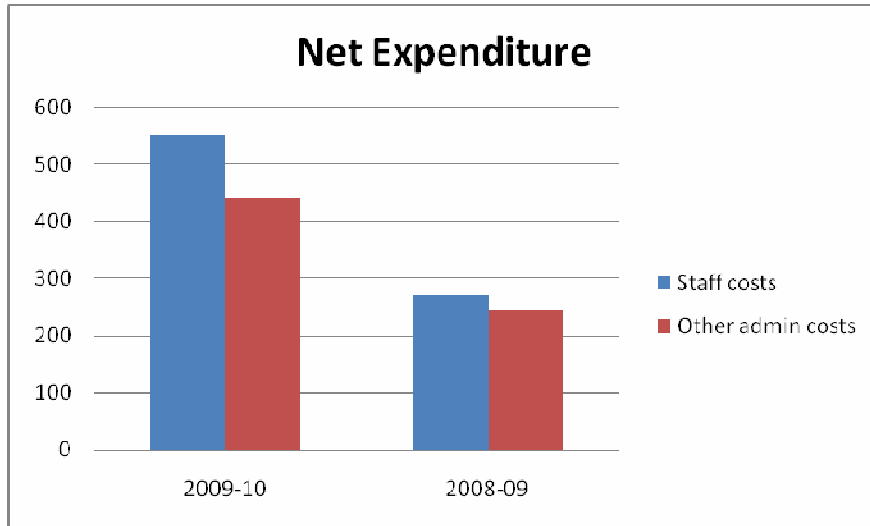
### 2.3 Audit opinion

We intend to conclude that the SCHR 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.

### 2.4 Financial reporting

#### Operating cost statement

2009-10 was the Commission's first full year of operation. As a result, net expenditure on operating activities for the year increased to £967k (2009 - £528k) against a budget of £1,000k. Expenditure was made up of staff costs of £550k (2009 - £272k) and other operating costs £443k (2009 - £246k).

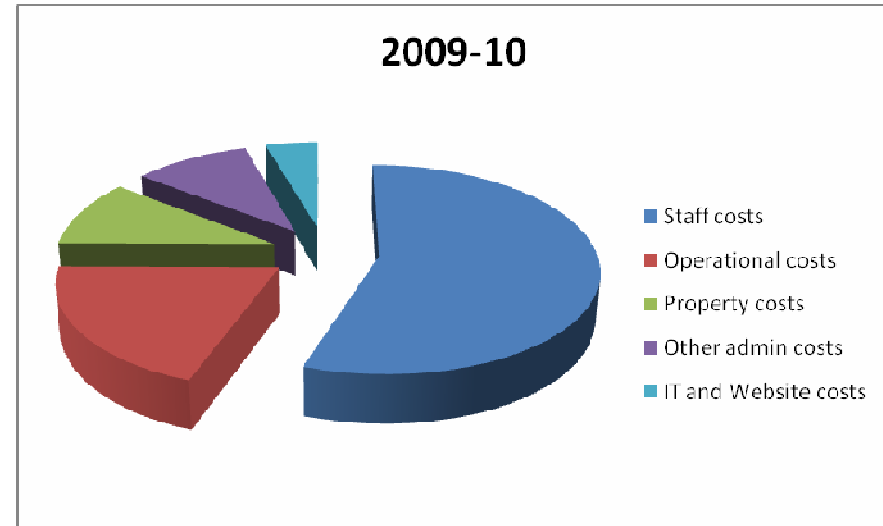


The staff costs increase is attributed to the higher average number of staff throughout the year, the majority of which were taken on midway through 2008-09. A further analysis of staff numbers is provided below:

Year	Actual Staff Numbers*
2008-09	5.0
2009-10	10.7

\*full time equivalent

Gross expenditure of £998k in 2009-10 is further analysed into the main components of expenditure in the following diagram:



As shown in the diagram above, 55% of total expenditure in 2009-10 related to staff costs, 20% to operations, 10% to property costs, 10% to other admin costs including depreciation, and 5% to IT and Website costs.

**Conclusion**

Overall SCHR has managed its finances well, monitoring outturn carefully during the year to achieve a result close to budget.

## 2.5 Matters identified at the planning stage

	Issue	Summary
1	<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, SCHR prepared an opening 2008 IFRS-based balance sheet which we have already reviewed and reported on.</p> <p>SCHR also produced full shadow IFRS accounts for 2008-09 by the due date of 30 November 2009.</p>	<p>We have carried out a comprehensive review of the draft 2009-10 IFRS accounts against the requirements of the 2009-10 FReM. There were no material errors identified and the accounts are IFRS compliant.</p>
2	<p><b>Transaction processing</b> In the prior period SPCB provided the Commission with transaction processing services. Transaction processing has been brought in-house from 1 April 2009.</p> <p>In 2008-09 staff were found to be making purchases on behalf of the Commission and being reimbursed through the payroll system.</p>	<p>We have reviewed financial systems and controls around the purchasing system, and have found that controls are designed effectively.</p> <p>Following the set up of the bank account this practice is no longer required.</p>
3	<p><b>Financial management and budgetary control</b> During 2008-09 monthly management accounts comparing actual spend to budget were not prepared, raising the risk that significant variations from budget are not identified and tackled promptly.</p>	<p>We have reviewed financial management and budgetary control systems, and have found them to be operating effectively. Outturn against budget is monitored monthly by the office manager and reported to the Board at each meeting.</p> <p>As detailed in section 2.4, in 2009-10, SCHR's expenditure was £33,000 below its budget of £1,000,000 (3%) leaving the Commission within its budget limit.</p>

**2.6 Matters identified during the course of the audit**

	<b>Issue</b>	<b>Auditor response</b>
1	<p><b>2008-09 audit fee</b></p> <p>The 2008-09 audit fee of £14,800 had correctly been recognised as an expense in the prior year accounts, however no corresponding creditor/accrual had been recognised. Instead, the corresponding entry had been included within 'funds received in the year'.</p> <p>Following advice from the Scottish Parliament the client has this year corrected the error by reducing this year's funding by the £14,800 wrongly included within income in the prior year.</p>	<p>Having reviewed correspondence between SCHR and the Scottish Parliament, we are satisfied with the treatment adopted and that no prior year adjustment need be processed.</p>
2	<p><b>Accruals and prepayments</b></p> <p>During our testing of expenditure recognised in 2009-10, we identified a number of payments which related to the forthcoming financial year that had not been correctly recognised in the accounts.</p> <p>Expenditures recognised in the period should only include those which <i>relate</i> to 2009-10 irrespective of when the invoice is actually paid. This may involve apportioning invoices between years in some cases.</p>	<p>Following our audit, we are satisfied that prepayments have been properly identified and accounted for within the financial statements.</p>



### 3 Governance

#### 3.1 Introduction

Corporate governance is the system by which organisations direct and control their functions and relate to their stakeholders, 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.

#### 3.2 Audit Approach

The Commission has adopted the Nolan Principles of Public Life and has committed to the Good Governance Framework within its Strategic Plan. As part of our 2009-10 audit, we assessed the adequacy of SCHR's governance arrangements against the good practice standards for the public sector.

We examined:

- The Strategic and Operational Plans
- Arrangements for supporting the Commission members in their role
- Policies and procedures
- Risk management arrangements
- The role of the AAB.

Specific matters identified	Response
<p><b>Communication Strategy</b>                      Stakeholder consultation and engagement was a key strength from the outset of the organisation, with a series of stakeholder events held to seek views on the priorities and strategic objectives for the Board. Since then, where the Commission has engaged stakeholders for a particular purpose, it has ensured that stakeholders are informed of outcomes. However, the Commission acknowledge that there is currently no systematic approach to stakeholder engagement.</p>	<p>The Commission should consider developing a Communication Strategy to re-engage with stakeholders. This should include arrangements for partnership working with other bodies where appropriate.</p> <p style="text-align: right;"><b>Refer to Action Plan Point 1</b></p>

Specific matters identified	Response
<p><b>The Advisory Audit Board (AAB)</b>                      The AAB fulfils the audit committee role at the Commissioner's office, but there is a risk that it may not be fully compliant with the principles laid out in SPFM (audit committee handbook). We noted that there is particular scope to strengthen risk management arrangements.</p>	<p>AAB members are drawn from the SPCB's AAB and provide a similar audit committee and advisory function for a number of SPCB sponsored bodies. This dual role presents a potential conflict of interest for AAB members - and the potential for a conflict of interest to emerge is greater in light of the increased role for the SPCB in monitoring and directing sponsored bodies.</p> <p>During our interim audit we noted that the Commissioner should be assured that the Advisory Audit Board remained independent, objective and risk focused. There is scope for the Commissioner to work with the AAB and other SPCB-supported bodies to ensure that audit committee arrangements can be developed that meet the needs of the Commissioner on a cost effective basis.</p> <p style="text-align: right;"><b>Refer to Action Plan Point 2</b></p>
<p><b>Commission Papers</b>                      The Good Governance Framework highlights the importance of taking informed, transparent decisions. Our discussion with Board members identified scope to improve the content and layout of meeting papers which may not currently fully meet the needs of the Board, or support open and transparent decision making.</p>	<p>SCHR management should work with Board Members to ensure that Board papers fully meet members needs and support open and transparent decision making.</p> <p style="text-align: right;"><b>Refer to Action Plan Point 3</b></p>

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## 4 Performance and best value

### 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 financial austerity, with significant budget cuts forecast for the period to 2013-14.

Each of the SPCB supported bodies has been notified that they are likely to be required to make around 15-20% real terms reductions in budgets by 2013-14. In many areas this may mean that current level of service provision will become 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 Strategic Planning

SCHR has a Strategic Plan in place which gives a clear sense of organisational priorities, and reflects the Commission's commitment to deliver measurable outcomes in a transparent and accountable manner. There is a clear link between the priorities within the Strategic Plan and actions within the Operational Plan. Eight specific projects have been created to deliver the strategic priorities. However, the Commission has some work to do to demonstrate outcomes as a result of the actions they have taken. The development of a performance management system will therefore be a key area for progress in 2010-11.

**Refer to Action Plan Point 4**

The SCHR has a clear desire to use the extensive consultation with stakeholders to identify priorities to be addressed. The SCHR's major project to map the network of human rights across Scotland will provide both a source of support for strategic priorities, and will allow the SCHR to assess the extent to which organisations feel they currently enjoy human rights. This will provide a baseline for any future outcomes-based reporting as the SCHR maps the progressive realisation of rights over time.

### 4.3 Performance to date

The SCHR's 2009-10 Annual Report recognises a number of key successes against its priorities within the year. The SCHR has recently been awarded Grade A status by the United Nations Office of the High Commissioner for Human Rights, following a review of the organisation's legitimacy and effectiveness to date.

The SCHR developed a Charter of Rights for people with dementia and their carers in conjunction with Alzheimer Scotland. The SCHR has also developed a human rights framework to inform the design and implementation of the "Acknowledgement and Accountability Forum."

The SCHR has also developed training materials on human rights for staff in local authorities. This should help support an integrated human rights and equality impact assessment tool in the future.

#### **4.4 Delivering Efficiencies**

The scale of budget cuts required to be found by SPCB supported bodies means that current ways of working may no longer be 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.

SCHR has entered into discussions to share additional office space with the Scottish Public Services Ombudsman. The SCHR 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 the SCHR 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 5**

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

## 5 Misstatements identified during the audit

### 5.1 Misstatements

Misstatements that were identified by the management team during the course of the audit and subsequently adjusted include:

- 2009/10 holiday pay accrual

All adjusted misstatements are set out in the table below.

The auditor is also required to communicate all uncorrected misstatements, other than those considered to be clearly trivial, to the entity's management and to request that management corrects them.

The aggregate impact of unadjusted misstatements on the profit and loss account, were they to be processed, would result in a reduction of the surplus by £496. This is not considered material.

**5.2 Adjusted misstatements**

Journal reference	Detail	Balance sheet		Operating cost statement		Effect on underspend	Adjusted Y/N
		Dr	Cr	Dr	Cr		
1	DR accruals	6,732					
	CR staff costs				6,732	6,732	Y
	Being reduction in 2009/10 holiday pay accrual.						
2	DR prepayments	3,819					
	CR operational costs				3,819	3,819	Y
	Being missed prepayment for ProQuest.						
3	DR prepayments	4,694					
	CR IT costs				4,694	4,694	Y
	Being missed prepayment for TextHelp (IT costs)						
4	DR prepayments	8,813					
	CR operational costs				8,813	8,813	Y
	Being deposit prepaid for forthcoming event.						
5	DR advertising and communications			4,428			
	CR accruals		4,428			(4,428)	Y
	Being accrued required in respect of 2009/10 Annual Report.						
<b>Outturn</b>		<b>24,058</b>	<b>4,428</b>	<b>4,428</b>	<b>24,058</b>	<b>19,630</b>	

**5.3 Unadjusted misstatements**

Journal reference	Detail	Balance sheet		Operating cost statement		Effect on underspend	Adjusted Y/N	Reason for not adjusting
		Dr	Cr	Dr	Cr			
1	DR Mapping background (operational costs)			496				
	CR accruals		496			(496)	N	Immaterial to the results of the Commission.
	Being adjustment in respect of under-accrual.							
Outturn		0	496	496	0	(496)		

## 6 Action Plan

	Issue and risk	Assessment	Recommendation
1	<p><b>Communication Strategy</b> Stakeholder engagement has been a strength of the SCHR. However, the lack of a coherent approach to stakeholder engagement means that there is a risk that this momentum may be lost, or that the level of involvement with partners loses balance.</p>	Medium	<p>The Commission should consider developing a Communication Strategy to re-engage with stakeholders. This should include arrangements for partnership working with other bodies in the field.</p> <p><b>Management Response:</b> Wide ranging initial stakeholder engagement as part of a national consultation informed the Commissions 2008-12 strategic plan. It also identified key partners for the Commission to work with within various sectors. Future stakeholder engagement has been planned as part of the mapping project and the National Action Plan for Human Rights in Scotland which will endeavour to sustain the momentum of this.</p>
2	<p><b>Advisory Audit Board</b> Current AAB arrangements do not fully meet good practice guidelines and there is potential for a conflict of interest for AAB members to emerge.</p>	Medium	<p>The Commissioner and the AAB should consider whether the current audit committee arrangement continues to fully meet the needs of the organisation.</p> <p><b>Management Response:</b> Auditing arrangements for all Officeholders are currently under review with the possibility of one centralised audit service provided by the Scottish Parliament. In the meantime, the Commission are in the process of setting up an Internal Audit Committee.</p>
3	<p><b>Board Papers</b> The Good Governance Framework highlights the importance of taking informed, transparent decisions.</p>	Low	<p>SCHR should work with Board members to ensure that papers going to meetings fully meet members needs and aid open and transparent decision making. This review should also consider the process for feedback on actions taken as a result of Board decisions.</p> <p><b>Management Response:</b> The Commission have implemented a project planning system to facilitate Board decisions. Following each</p>



	Issue and risk	Assessment	Recommendation
			Board meeting there is a Chair/Staff feedback session and minutes are circulated to communicate board decisions to staff members.
4	<p><b>Performance Management</b>            Although there is a clear link between the priorities within the Strategic Plan and both the Operational Plan, there is limited use of performance information to demonstrate outcomes, or progress against the priorities.</p>	High	<p>The development of a performance management system should be a key area for progress in 2010-11.</p> <p><b>Management Response:</b> The Commission is in the process of identifying Key Performance Indicators for various project areas which will be used to demonstrate outcomes and progress.</p>
5	<p><b>Improving Efficiency Good Practice Checklist</b>            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 as an aide-memoir to identify potential areas for continuous improvement. This may be helpful in focusing future efficiency reviews, to ensure that services are delivered as cost effectively as possible.</p> <p><b>Management Response:</b> The Commission will apply the good practice checklist as is appropriate to the nature and size of the organisation.</p>

## 7 The small print

### Purpose of memorandum

This Key Issues Memorandum has been prepared for the benefit of discussions between Grant Thornton and the Scottish Commission for Human Rights .

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 31 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 SCHR.

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 SCHR 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 (the Commissioner) 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 that they have done so.

The Accountable Officer is required to review the SCHR's internal financial controls. In addition, management are 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 Accountable Officer 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 you.

### Independence and robustness

Ethical standards require us to give you full and fair disclosure of matters relating to our independence.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

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

	£
Audit	13,500

#### 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