

Scottish Commission for the Regulation of Care

Report on the 2010/11 Audit



Prepared for the Scottish Commission for the Regulation of Care and the Auditor General for
Scotland

September 2011

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds

Contents

Key messages	2
Introduction	4
Financial Statements	5
Audit opinion	5
Accounting issues	6
Outlook.....	7
Financial position	8
Financial results 2010/11.....	8
Financial position at 31 March 2011	9
Outlook.....	9
Governance and accountability	11
Corporate governance.....	11
Prevention and detection of fraud and irregularities.....	12
Standards of conduct and arrangements for the prevention/ detection of bribery and corruption	13
Outlook.....	13
Best Value, use of resources and performance	14
Management arrangements	14
Overview of performance in 2010/11	15
National performance reports	15
Outlook.....	16

Key messages

2010/11

The Scottish public sector faces significant challenges in balancing budgets while also delivering on its commitments. In 2010/11 we looked at the key strategic and financial risks being faced by the Scottish Commission for the Regulation of Care (Care Commission). We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

We have given an unqualified opinion on the financial statements of the Care Commission for 2010/11. We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance issued by Scottish Ministers.

In 2010/11 the Care Commission achieved a net under spend of £0.764 million. This is the difference between the net operating costs for the year of £20.278 million and the funding received from the Scottish Government of £21.042 million.

Overall the corporate governance and control arrangements for the Care Commission operated satisfactorily during the year. These include an effective Audit Committee which challenges senior management on key issues as appropriate. The Board is supported by a robust internal audit function.

Procurement is a significant element of the Scottish Government's Efficient Government Agenda. The Scottish Government conducted a Procurement Capability Assessment of the Care Commission and found that improvements have been made in procurement processes and plans are in place to further develop procurement capability.

The Care Commission participated in work with other scrutiny bodies in developing shared risk assessments to better co-ordinate and streamline scrutiny activity and achieve greater effectiveness.

This period of significant change for the Care Commission presented risks to staff morale and retention, which were managed to ensure business continuity.

Outlook

Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. The position going forward is becoming even more challenging than in previous years with limited increases in funding, increasing cost pressures and challenging savings targets. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight.

The Scottish budget will reduce in real terms but the full extent of this is not yet known. Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public

spending and the smaller budget available. In the current economic climate difficult decisions will have to be made across the public sector about priority spending programmes.

The Care Commission was dissolved on the 31 March 2011 under the terms of the Public Services Reform (Scotland) Act 2010. The dissolution of the Care Commission and the transfer of its functions, assets and liabilities to the new Non Departmental Public Body, Social Care and Social Work Improvement Scotland (SCSWIS)) with effect from 1 April 2011, means that SCWIS will be responsible for maintaining control over the resources applied to functions previously carried out by the Care Commission and for reviewing future spending plans to ensure the best possible budget setting arrangements.

Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of the Care Commission. The purpose of the report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
2. Our audit did not identify any high level risks which required action by the Care Commission during the year 2010/11. However, given the formation of Social Care and Social Work Improvement Scotland (SCSWIS), we have included a number of issues throughout the report which senior management of SCSWIS may wish to consider going forward.
3. This report is addressed to the Care Commission and the Auditor General and should form a key part of discussions with Audit Committees, either prior to or as soon as possible after the formal completion of the audit of the financial statements. Reports should be made available to stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
4. This report will be published on our website after consideration by the Audit Committee.
5. The management of the Care Commission is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
6. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by management and staff of the Care Commission during the course of our audit.

Financial Statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
 - the regularity of the expenditure and income (except for local government bodies).
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the management commentary, statement on internal control and the remuneration report. Where required, auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit on the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of the Care Commission for 2010/11 give a true and fair view of the state of the body's affairs and of its excess of comprehensive expenditure over income for the year.
11. The Care Commission is required to follow the 2010/11 Government Financial Reporting Manual (the FReM) and we confirm that the financial statements have been properly prepared in accordance with the FReM.

Going concern

12. As at 31 March 2011 the Care Commission has a net liability on the statement of financial position of £13.725 million (£37.440 million net liability as at 31 March 2010). This significant movement was due to a £0.748 million net increase in assets; a £0.347 million increase in net current liabilities and a £23.314 million reduction in non-current liabilities. The most significant component of these movements was due to a past service gain in the valuation of the pension scheme arising from a decrease in the valuation of pension liabilities of £12.560 million and an increase in the valuation of assets of £10.754 million. The financial statements have been prepared on a going concern basis as the Board has no reason to believe that the support of the sponsor department, the Health and Social Care Integration Directorate, will not be forthcoming for the successor body SCSWIS.

Regularity

13. In accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000, we have also provided an opinion, that in all material respects, the expenditure and receipts in the financial statements were incurred or applied in accordance with applicable enactments and guidance.

Remuneration report and statement on internal control

14. In our opinion, the audited part of the remuneration report has been properly prepared and the remaining elements of the remuneration report and management commentary are consistent with the financial statements.
15. We also confirm that we have no issues to report to you on the statement of internal control and its compliance with guidance.

Accounting issues

Accounts submission

16. The financial statements were submitted for audit on 30 June, in accordance with a pre-agreed timetable. The good standard of the supporting papers and the timely responses from Care Commission staff allowed us to conclude our audit within the agreed timetable as outlined in our Annual Audit Plan.
17. As required by auditing standards we provided our opinion and reported to the Audit Committee the main issues arising from our audit of the financial statements on 27 September. The main points are noted below.

Presentational and monetary adjustments to the unaudited accounts

18. A small number of presentational changes were required to the annual report and accounts as a result of our review of the disclosures required by the FReM and the audited financial statements have been adjusted to reflect this.

Prior year adjustments

19. All central government bodies have been affected by the removal of the cost of capital in the 2010/11 FReM. This change is identified in the accounting policies and appropriate amendments have been made to the prior year statements.

Whole of government accounts/consolidation packs

20. The whole of government accounts (WGA) is the consolidated financial statements for all branches of government in the UK. Most central government bodies are required to submit a consolidation pack by 29 July. The Care Commission submitted its pack to Audit Scotland on 27 July. Auditors need only audit WGA returns from bodies that have gross assets, gross liabilities, or gross income (including grant in aid) or gross expenditure of more than £50

million. As the Care Commission's assets, liabilities, income and expenditure fall below the threshold no audit is required.

Outlook

21. The main change in the financial reporting framework (FReM) next year (2011/12) is that grants and donated assets should be recognised immediately, unless there is a condition that the recipient had not satisfied that would lead to repayment. This is unlikely to have much (if any) impact on SCSWIS, the Care Commission's successor body.
22. Looking further ahead, from 1 January 2013 changes to international financial reporting standards (IFRSs) will become effective. This includes the introduction of:
 - IFRS 9 - financial instruments (replacing IAS39)
 - IFRS 10 - consolidated financial statements (replacing IAS27)
 - IFRS11 - joint arrangements (replacing IAS31)
 - IFRS12 - disclosure of interest in other entities (replacing IFRS12)
 - IFRS 13 - fair value.
23. Revisions to the FReM for 2013/14 are included in the Financial Reporting Advisory Board (FRAB) forward work programme for 1 December 2011.

Audit appointment for 2011/12

24. Audit appointments are made by the Auditor General, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment. The procurement process for the next five years was completed in May 2011. From next year (2011/12) the auditor for SCSWIS will be the Auditor General for Scotland. As Audit Scotland will be appointed as the auditor for SCSWIS, we look forward to continuing the good working relationship that exists and thank officers and members of the Board and committees for their assistance during the last five years. We will be meeting with the incoming audit team, later in the year, as part of a managed changeover process.

Financial position

25. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
26. Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
27. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results 2010/11

28. The annual budget approved by the Scottish Parliament was £30.882 million for 2010/11, comprising grant in aid of £18.478 million and fees of £12.404 million. In addition to this the Care Commission incurs expenditure in respect of the shared services it provides and receives income from recharges to the bodies receiving those services. The Care Commission also receives other grants from the Scottish Government. During the year the Scottish Government agreed to provide additional funding of £1.5 million to assist with funding a voluntary early retirement/severance scheme and £0.4 million to fund liabilities that will transfer from the Social Work Inspection Agency to SCSWIS.
29. Gross revenue expenditure for the year totalled £34.349 million, of which £1.789 million related to expenditure that was recharged or funded from other government grants. The remaining £32.560 million comprised staff costs of £26.748 million and other operating expenditure of £5.812.
30. During 2010/11 the Care Commission received total revenue income of £35.113 million, comprising £21.042 million from the Scottish Government and £14.071 million from fees and other income giving an overall surplus for the year of £0.764 million.
31. The Care Commission operated within the budget limits set by the Scottish Government for capital and operating expenditure, and met its efficiency saving targets, mainly as a result of controlling expenditure on staff costs, administration, accommodation and travel and subsistence. This has allowed the Care Commission to provide funding for significantly more voluntary severances than was originally planned.

Budgetary control

32. Robust budget setting procedures are in place at the Care Commission including monitoring processes to challenge any actual or projected overspend and ensure that the organisation as a whole remains within budget. During the year the Care Commission took active steps to prepare for the anticipated costs of establishing the new body SCSWIS effectively monitoring the budget throughout the transition process.
33. In its final year of operation the Care Commission was aiming to deliver a budget underspend to meet the agreed reserve transfer to SCSWIS of £0.2 million and provide funding over and above the £1.5 million agreed with the Scottish Government towards the cost of a Voluntary Early Severance and Voluntary Early Retirement Scheme (VES/VER). Overall a budget underspend of £0.764 million was achieved providing SCSWIS with a beneficial opening financial position.

Workforce reduction

34. We are pleased to report that the Care Commission adopted a rigorous process for assessing applications for early retirement/voluntary severance; affordability was assessed in relation to existing budgets and organisational impact was considered by senior management in relation to forward work plans and the planned formation of SCSWIS.
35. Fifty five staff at the Care Commission chose to accept offers of early retirement/voluntary severance at 31 March 2011 at a total cost of £2.449 million. This will help to meet the planned reduced staffing of the new regulatory body SCSWIS. The Scottish Government may seek further reductions to the workforce and we would encourage SCSWIS to adopt the same rigorous approach to assessing any future applications for early departure.

Financial position at 31 March 2011

36. The Statement of Financial Position shows a net liability position of £13.725 million at 31 March 2011 (net liability of £37.440 million at 31 March 2010). This overall reduction of £23.715 million is due mainly to a past service gain in the valuation of the pension scheme. The volatile nature of the Care Commission's financial position is largely due to factors which have been outwith the control of the organisation (valuation of the pension scheme, the first time adoption of IFRS and the cost of VER/VES schemes). The Care Commission's transition to SCSWIS may present a challenge for the new body going forward in terms of achieving financial stability and delivering further savings.

Outlook

2011/12 budget

37. Scottish Ministers have approved a budget of £35.057 million for SCSWIS for 2011/12. Of this, £20.676 million will be funded from recurring Grant in Aid, £2.230 million from non-recurring Grant in Aid (to cover one-off transitional costs of SCSWIS) and £12.151 million from income from fees.

38. As at September 2011 SCSWIS are forecasting a break-even position at the end of 2011/12. Going forward, there are additional risks for managing the budget given that SCSWIS is a new body facing some degree of uncertainty.

Financial forecasts beyond 2011/12

39. The indicative budget for 2012/13 is £35.374 million, comprising non-recurring Grant in Aid of £4.140 million (to fund transitional costs), income from fees of £12.151 million (as in 2011/12) and Grant in Aid of £19.082 million. This is a Grant in Aid reduction of £1.594 million (7.7%) on the previous year and the level of savings required to balance the budget will be extremely challenging for the new organisation. Proposed savings are expected to come from further staff reductions, integrating business functions and business redesign.
40. Robust budget monitoring systems will need to be in place to ensure the new body operates within the tight budget constraints in place for the next financial years.

Governance and accountability

41. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
42. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
43. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
44. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

45. The corporate governance framework within the Care Commission is centred on the Board which is supported by a number of standing committees that are accountable to it. The Board is responsible for ensuring that the Care Commission fulfils the aims and objectives set by Scottish Ministers. The role of the Board includes establishing the overall strategic direction, monitoring performance against agreed objectives and ensuring that statutory requirements for the use of public funds are complied with.
46. The Audit Committee monitors and reviews risk, control and corporate governance and reports to the Board. The Care Commission has an effective Audit Committee which challenges senior management on key issues as appropriate and ensures recommendations are implemented, monitored and followed up.

Internal control

47. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, our wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.

48. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In their annual report for 2010/11 Scott-Moncrieff, the Care Commission's internal auditors, provided their opinion that, based on the internal audit during the year, there were no significant weaknesses that required specific mention in the Statement on Internal Control.
49. As part of our audit we reviewed the high level controls in a number of the Care Commission's systems that impact on the financial statements. This audit work covered a number of areas including:
- Main Accounting System
 - Budgetary Control
 - Payroll
 - Purchasing and Creditors
 - Income and Debtors
 - Cash and Bank.

Our overall conclusion was that the Care Commission had adequate systems of internal control in place in 2010/11.

Internal Audit

50. A key element of our work on internal controls is the extent of reliance that we can place on the work of internal audit in terms of International Standard on Auditing 610 (Considering the Work of Internal Audit). We carried out a review of the internal audit function in November and concluded that the internal audit service operates in accordance with Government Internal Audit Standards and has sound documentation standards and reporting procedures in place.
51. We placed reliance on aspects of their work in a number of areas including payments and creditors, financial ledger and budget setting and monitoring. This approach ensures we are delivering an efficient, co-ordinated audit that avoids unnecessary duplication and expense.

Statement on internal control

52. The Statement on Internal Control (SIC) provided by the Care Commission's Accountable Officer reflected the main findings from both external and internal audit work. The SIC records management's responsibility for maintaining a sound system of internal control and summarises the process by which the Accountable Officer obtains assurances on the contents of the SIC.

Prevention and detection of fraud and irregularities

53. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on those arrangements.

54. The Care Commission has appropriate arrangements in place (based on Scottish Government guidance) to prevent and detect instances of fraud including a Fraud Policy and a Whistle-blowing Policy, which are available on its website. There are also clear roles for internal audit in investigating cases of suspected fraud.
55. There were no instances of fraud reported by the Care Commission in 2010/11.

Standards of conduct and arrangements for the prevention/detection of bribery and corruption

56. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. We have concluded that the arrangements in the Care Commission are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Outlook

57. We are aware through discussions with officers, and attendance at audit committee meetings, that there has been considerable activity directed toward establishing governance arrangements for SCSWIS. SCSWIS has established an Audit Committee and its terms of reference were agreed at a meeting on 31 May. The committee also met on 26 July to identify key risks and develop a risk register.

Best Value, use of resources and performance

58. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value.
59. The Auditor General may require that auditors consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where no requirements are specified for auditors in a period they may, in conjunction with their audited bodies, agree to undertake local work in this area.
60. As part of their statutory responsibilities, the Auditor General and Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
 - a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
61. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments. Audit Scotland has prepared a series of Best Value toolkits to facilitate its reviews in these areas.
62. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
63. This section includes commentary on Best Value/performance management arrangements within the Care Commission. We also comment on any headline performance outcomes/measures used by the Care Commission and comment on any relevant national reports and the body's response to these.

Management arrangements

Best Value

64. In March 2011, the Scottish Government issued new guidance for accountable officers on Best Value in Public Services. The new guidance, in essence, required public bodies to take a systematic approach to self-evaluation and continuous improvement.
65. The guidance identifies the themes which an organisation needs to focus on in order to deliver the duty of Best Value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.

66. The five themes and two cross-cutting themes (some of which we have commented on earlier in this report) are:
- vision and leadership
 - effective partnership
 - governance and accountability
 - use of resources
 - performance management
 - equality (cross-cutting)
 - sustainability (cross-cutting).
67. As the new guidance was issued shortly before the dissolution of the Care Commission no self evaluation has taken place. At a meeting on 31 May the SCSWIS resources committee agreed a framework to ensure that SCSWIS can demonstrate it is focussing its efforts and resources on the highest value activities and delivering those activities as efficiently and effectively as possible.

Overview of performance in 2010/11

68. The Care Commission's strategic priorities are set out in its Corporate Plan and the annual business plan sets detailed objectives for achieving these. In addition, a number of key performance indicators were approved by the Board to measure the achievement of each objective. Performance against strategic objectives is analysed in the Care Commission's published Annual Report. There are no specific financial targets.
69. Overall, the Care Commission was successful in meeting its corporate objectives with the majority being met in full.
70. The Procurement Capability Assessment (PCA) was launched by the Scottish Government in June 2009. Its aim being, to assess the procurement capability across the public sector to identify both best practice which can be shared and gaps in procurement capability to enable relevant tools and processes to be developed to drive performance improvement. The latest PCA was completed by the Scottish Government in 2011 and feedback was very positive, acknowledging that the Care Commission had made progress in its procurement practices.

National performance reports

71. Audit Scotland carries out a national performance audit programme on behalf of the Auditor General for Scotland and the Accounts Commission. The findings and key messages of these studies are published in national reports. One report in the last year of direct interest is '*The role of boards*'.

Role of boards

72. Public bodies and their boards have evolved over time. There is great variety in the size and make-up of boards and the roles they have. Accountability can be complex, with chief

executives and boards reporting in different ways to the Scottish Government, ministers and the Scottish Parliament. This risks causing confusion about who leads an organisation and is responsible for its decisions.

73. In response to the key messages in the national report, the majority of Care Commission Board Members completed the checklist assessment contained in the report to determine whether there was a need for further action. Findings were collated and presented to the Strategy and Regulation Committee for discussion and suggestions for improvement were considered. One of these, regarding committee structure has already been implemented by the Chair of SCSWIS.

Outlook

74. The main issue affecting SCSWIS going forward relates to change management issues arising from bringing together the functions of the Care Commission and the Social Work Improvement Agency. In relation to ICT there is a risk that the current systems may not be adequate to respond fully to the developing business needs of SCSWIS.