Care Inspectorate

Annual report on the 2011/12 audit

Prepared for the Care Inspectorate and the Auditor General for Scotland

November 2012

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

2011/12

We have given an unqualified opinion that the financial statements of the Care Inspectorate for 2011/12 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.

The Care Inspectorate received grant in aid approval for 2011/12 amounting to £23.2 million. £3.7 million of this grant in aid was not required due to the significant change in planned budget assumptions by the Scottish Government. In August 2011, the Scottish Government entered into discussions with the Care Inspectorate to fund additional inspections and other work. The lead-in time needed to meet the increased activity and the cancellation of planned severance and office rationalisation projects (and the associated non recurrent costs), meant that the original funding was not required

This year, changes have been made in the financial statements to the presentation of pension costs. The main reason for this was to promote consistency in the application of IAS19 (accounting and disclosures for pension costs) across non departmental public bodies. The inclusion of the actuarial loss on pension assets/liabilities on the face of the Statement of Comprehensive Net Expenditure increased net expenditure from £19.2 million to £42.2 million

Outlook

The Care Inspectorate continues to implement organisational change and develop its governance arrangements following the increased inspection and other work expectations that have emerged since August 2011. Scottish Ministers are to undertake a consultation exercise on fees during 2012/13. These fees represent 38% of the Care Inspectorate's income.

Introduction

1. This report summarises our findings arising from the 2011/12 audit of the Care Inspectorate. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions on the financial statements and conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.

2. Reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of the Care Inspectorate.

3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed 'planned management action'. We do not expect all risks to be eliminated or even minimised. What we expect is that the Care Inspectorate understands its risks and has arrangements in place to manage these risks. The Board and Accountable Officer should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.

4. This report is addressed to the Care Inspectorate and the Auditor General and should form a key part of discussions with the Audit Committee. 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.

5. This report will be published on our website after consideration by the Audit Committee and after the financial statements have been laid before parliament.

6. The management of the Care Inspectorate 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.

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. We 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.

9. We review and report on, as appropriate, other information published with the financial statements, including the management commentary, the governance statement and the remuneration report. This section summarises the results of our audit on the financial statements.

Audit opinions

10. We have given an unqualified opinion that the financial statements of the Care Inspectorate for 2011/12 give a true and fair view of the state of the body's affairs and its net operating cost for the year.

11. The Care Inspectorate is required to follow the 2011/12 Government Financial Reporting Manual (the FReM) and we confirmed that the financial statements have been properly prepared in accordance with the FReM. We also confirmed that relevant parts of the remuneration report had been properly prepared and that information given in the management commentary was consistent with the financial statements.

12. We reviewed the Governance Statement and concluded that it complied with Scottish Government guidance.

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 issued by Scottish Ministers.

Accounting issues

Accounts submission

14. We received the unaudited accounts on 29 June 2012, in accordance with the agreed timetable. However, the initial submission of the annual report and accounts were not fully complete until 24 August 2012 as sections of the management commentary were not included in the original submission.

Refer action plan no. 1

15. The audit fieldwork commenced on 23 July. The high quality of the supporting papers and the timely responses from staff allowed us to conclude our audit within the agreed timetable and a report covering the key matters arising from the financial statements audit (ISA260 report) was issued on the 20 September 2012 and presented to the Audit Committee on 3 October 2012. .

Presentational and monetary adjustments to the unaudited accounts

16. The unaudited financial statements were amended to incorporate changes we requested to the presentation of pension costs. One of the main reasons for this was to promote consistency in the application of pension disclosures across non departmental public bodies.

17. The main change was the inclusion of the actuarial loss on pension assets/liabilities on the face of the Statement of Comprehensive Net Expenditure. This increased net expenditure from £19.2 million to £42.2 million, with actuarial gains now being shown below net operating cost. Additional disclosures were also added to the notes to the accounts and prior year balances were restated.

Event after the balance sheet date

18. As a result of the financial collapse of Southern Cross, the Care Inspectorate made a provision of £504,000 for all outstanding debt at 31 March 2012. The Southern Cross Group has now entered into liquidation arrangements and the debt will be written off. There is no impact on the financial position, as the debts were fully provided for in the financial statements. However as a non-adjusting event after the reporting period, a disclosure note was included in the financial statements.

Whole of Government Accounts

19. The whole of government accounts (WGA) is the consolidated financial statements for all branches of government in the UK. The aims of WGA are to provide improved data for fiscal planning, increase transparency and improve accountability to Parliament. The Care Inspectorate submitted their consolidation pack to the Scottish Government by 31 July 2012. The Care Inspectorate is below the auditor certification threshold of £100 million (2011/12) and no audit certification for the WGA return was required.

Outlook

Sustainability reporting

20. From 2011/12, all relevant bodies were encouraged to produce a sustainability report in accordance with the Scottish Government's Public Sector Sustainability Reporting Guidance (January 2012). This guidance is non-mandatory, however it represents good practice and central government bodies were encouraged to adhere to it.

21. The Care Inspectorate sustainability report for 2011/12 has been included in the Management Commentary and is therefore covered by the consistency element of our audit opinion. Further disclosure is required from 2012/13 onwards and we have discussed with officers the need to ensure that systems and processes are in place to ensure that accurate information is captured and included in 2012/13

Refer action plan point 2

Financial position

22. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.

23. We consider whether they 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.

Financial results

24. The main financial objective for the Care Inspectorate is to ensure that the financial outturn for the year is within the resource budget allocated by Scottish Ministers. The Care Inspectorate achieved an underspend of £0.180 million. The sponsor department does not explicitly set out the delegated expenditure limit (DEL) split between capital and resource and cash/ non-cash, so overall underspend cannot be allocated to these elements.

25. The outturn reported above excludes a total of £3.7 million approval for grant in aid that was not drawn down in the year. A change in the planning assumptions from August 2011 meant that the original funding was not required. This is explained further at paragraph 29.

Reconciliation of net expenditure in the accounts to DEL

26. The summary on page 40 of the Annual Report and Accounts reconciles the deficit shown on the Statement of Comprehensive Net Expenditure to the surplus recognised for budgeting and funding purposes. A summary is shown in Table 1 below.

Table 1: Reconciliation of Net Expenditure to Outturn 2011/12

	£m
Total Comprehensive Net expenditure	42.190
Reversal of IAS19 Pension accounting adjustments	(22.957)
Funding from grants and grant in aid	(19.113)
Funding from grants and grant in aid to fund depreciation	(0.310)
(Surplus) on funding and budgeting basis	**(0.180)**

Source: Care Inspectorate Annual Report and Accounts 2011/12

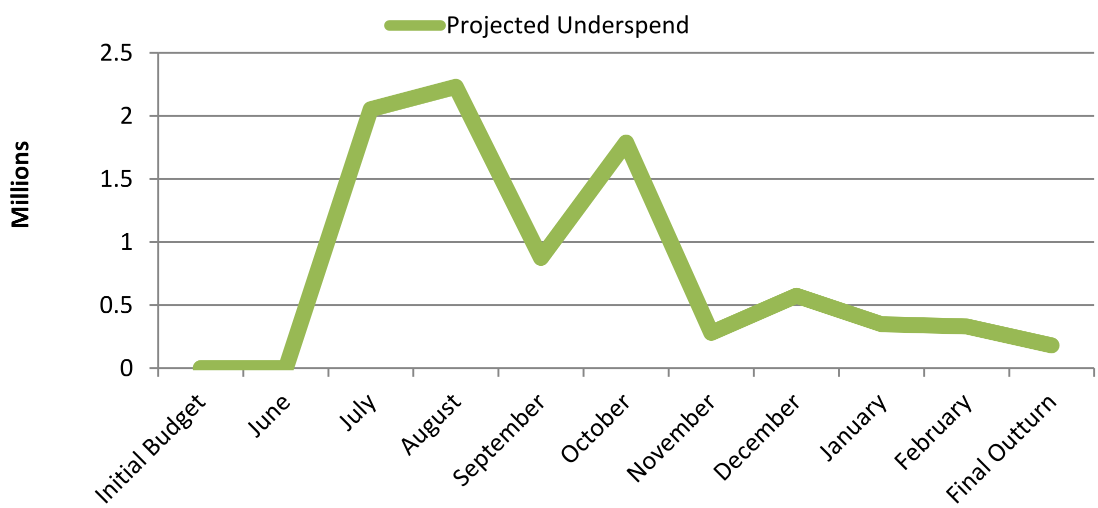
Commentary on the statement of comprehensive net expenditure

27. The pension transactions account for the main change in comprehensive net expenditure compared to the previous financial year with a significant actuarial loss of £23 million this year compared to a gain of £15 million last year. Although staff costs appear to have risen since last year, this is due to a £11 million pension credit in 2010/11. In fact, salary costs have reduced by £2.3 million. Income has been fairly static over the two years.

Budgetary control

28. Finance reports are presented at each Executive Team, Resources Committee and Board meetings providing details of the financial results for the period and the projected outturn for the financial year.

Exhibit 1: Financial Reporting 2011/12



Source: Finance and Performance Reports 2011/12

29. In November 2010, Scottish Ministers approved a business plan for the Care Inspectorate for the period 2011/12 to 2014/15. This included budget reductions of 25% in cash terms from the £35.9 million combined budget of the predecessor bodies' 2010/11 budgets to a budget of £27.4 million in 2014/15. The Care Inspectorate's operating budget was set at £32.8 million for 2011/12 (8.6% reduction from 2010/11). Prior to the Care Inspectorate's commencement and during the first six months of 2011/12, the Care Inspectorate prepared plans for further budget reductions in 2012/13. These significant budget reductions required a lead-in time, hence the projected underspends in July and August of just over £2.0 million (see

30.).

31. In August 2011, the Scottish Government entered into discussions with the Care Inspectorate about using identified efficiencies and budget reductions to fund additional inspections and other work necessary to effectively provide assurance and protection to people who use care services and their carers. A proposal was made to use a proportion of this underspend by investing in ICT infrastructure that was considered necessary. A paper was drafted, agreed by the Finance and Resources Committee and Board and then submitted to the Sponsor branch for consideration and approval. Following further requests for information on value for money, wider governance issues and assurances that work would be completed in the financial year, approval was granted by the Scottish Government in November 2011.

32. Given the various challenges and unique set of circumstances during 2011/12, the Care Inspectorate budget reporting throughout the year presented an accurate projection of the year end financial outturn, as indicated in

33. with the final net expenditure position being a small surplus of £0.180 million.

Financial position

34. On the basis of the information in this section of the report, we have concluded that, subject to significant changes in Scottish Government funding, pension funding arrangements or fee structures, the financial position of the Care Inspectorate is stable and its activities are financially sustainable. The Care Inspectorate is a non-departmental public body and receives 41% of its funding from fees. However, the Scottish Government sets the maximum fee that may be charged to care service providers. Scottish Ministers are to undertake a consultation exercise on fees during 2012/13.

35. The Statement of Financial Position as at 31 March 2012 shows the Care Inspectorate has net assets of £4.5 million (2010/11: £4.5 million) and a net liability position of £36.5 million (2010/11: £14.1 million). Most of this is represented by the change in the pension liability.

Pension liability

36. Most of the Care Inspectorate's employees are members of the Tayside superannuation fund a local government defined benefit scheme. A full actuarial valuation was carried out using membership data as at 31 March 2011 and the results of that valuation have been projected

to 31 March 2012. As noted above, the financial statements include a pension liability of £38 million.

37. The increase in the liability of £23 million from last year is due to the reduction in value of the scheme assets from £105 to £90 million and an increase in pension liabilities £120 to £128 million. Long term returns on assets are significantly lower than 2010/11 with equity investments reducing from 8.2% to 7.1% (a 13% decrease). The increase in pension liabilities appears to be mainly attributed to the decrease in discount rate.

Capital investment and performance 2011/12

38. During the year the Care Inspectorate spent £0.661 million on property, plant and equipment and intangible assets, with the majority of expenditure relating to Information and Communication Technology (ICT). These additions were a direct result of the application of in-year budget savings.

Financial planning to support priority setting and cost reductions

2012/13 budget and reporting

39. In March 2012 the Board approved a balanced budget of £34.5 million which is a 0.9% reduction compared to 2011/12. The expenditure will be mainly funded by grant in aid of £21.5 million with the remainder from fee and other income.

40. Recent financial reporting to the Board shows net expenditure to the end of August of £15.3 million against a profiled position of £15.5 million. A projected underspend of £0.586 million is forecast this is mainly due to recruitment activity taking longer than anticipated (£0.254 million), higher income from registration fees (£0.160 million) but offset by higher property costs of (£0.172 million).

Partnership working

41. In the current economic climate the area of partnership working and shared services is increasing in importance and scrutiny. The Care Inspectorate already has a partnership arrangement in place with the Scottish Social Services Council (SSSC) for services such as finance, payroll, information and communication technology, health and safety and facilities management with the Office of the Scottish Charities Regulator (OSCR) also sharing the last two services. In addition, the Care Inspectorate sublets accommodation to the National Health Service and Scottish Government. .

42. A Shared Services Strategy was approved in June 2011 as a declaration of intent, defining where the Care Inspectorate wishes to be in the long term to ensure that the benefits of shared services are maximised. The Strategy sets out the aims and activities for support services and is aligned with Corporate Plan objectives.

Outlook

Financial forecasts beyond 2012/13

43. The recent Scottish Government Comprehensive Spending Review (CSR) sets out indicative grant in aid funding for the Care Inspectorate for the period 2012/13 to 2014/15. This shows modest increases in cash terms of 1.5% per annum, but a reduction in real terms over the three years as shown in Table 2 below.

Table 2: Grant in Aid 2012/13 to 2014/15

	2012/13 £000	2013/14 £000	2014/15 £000
Grant in Aid funding	21,488	21,821	22,158

Source: Scottish Government Comprehensive Spending Review

Governance and accountability

44. 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.

45. 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.

46. Consistent with the wider scope of public audit, we 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

47. In this part of the report we comment on key areas of governance.

Corporate governance

Overall effectiveness

48. The following paragraphs identify areas for improvement in some aspects of the corporate governance and internal control arrangements, but with the exception of these issues we found that the overall arrangements were satisfactory.

Processes and committees

49. The Board is responsible for ensuring that the Care Inspectorate fulfils the aims and objectives set out by the Scottish Government. 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. The Board is supported by six sub-committees with key areas of expertise and responsibility, these are:

- Appeals Committee
- Audit Committee
- Complaints Committee
- Remuneration Committee
- Resources Committee
- Strategy and Performance Committee.

50. In September 2010 Audit Scotland published a report on *'The Role of Boards*'. The report examined the system of accountability within Scottish public bodies and colleges, the public appointments system and the performance of boards. The report included a list of questions for board members to use as a self-assessment tool.

51. During 2011/12 we followed up this report within the Care Inspectorate and assessed the progress made to improve the performance and operation of the Board. The original report highlighted a number of key message for public bodies such as:

- Ensure all non executives receive formal induction training
- Ensure that performance of all non executives are formally and regularly assessed
- Ensure the Board's scrutiny efforts are focussed on organisational performance, financial management and risk management
- Review use of committees and ensure that major decision that should be made by the Board are not delegated
- Maximise the openness and accessibility of Board meetings and papers.

52. Our follow-up work confirmed that the Care Inspectorate Board receives detailed information on corporate performance, financial management and risk management regularly. We also found that the Board engages well with stakeholders and is keen to develop a 'culture of involvement' by including people who use services and their carers. Board meetings are to be held around the country and advertised in the local press. The agenda and meetings are placed on the Care Inspectorate's website; however this is not always completed on a timely basis.

Refer action plan point 3

53. The members of the Board feel that the balance of skills is adequate with a strong user/carer ratio. However there is a risk in terms of continuity as there is no formal vice chair in place. This risk is mitigated by committee convenors chairing meetings in the absence of the Chair. This arrangement provides the Chair with a greater deal of flexibility although consideration should be given to formalising the vice chair role.

Refer action plan point 4

54. The Care Inspectorate also has a number of on-going and planned activities designed to help improve the governance and effectiveness of the Board which includes a self evaluation of Board practice against the principles of good governance; a Board effectiveness review; review of committees' performance; Board development sessions; and the development of a Code of Corporate Governance.

Internal control

55. While we concentrate on significant systems and key controls in support of the opinion on the financial statements, our wider responsibilities require us to consider the financial systems and controls as a whole. However, the extent of this work is informed by our assessment of risk and the activities of internal audit.

56. The key controls within financial systems should operate effectively to accurately record transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. As part of our audit we reviewed the high level controls in operation and concluded that overall the system of internal control was operating effectively. We reported this to management in May 2012.

57. A key element of our work on internal controls is the extent of reliance that we can place on the work of internal audit. Our review established that the work of internal audit is of a high quality allowing us to place reliance on a number of areas including income and debtors and payroll. This not only avoided duplication of effort but also enabled us to focus on key risk areas.

Use of resources - Government Procurement Cards

58. Across the public sector government procurement cards have been used to reduce the costs relating to the purchase of small items and some internet based purchases where a credit card is the most effective way of making payment. A recent significant fraud, in another public body, which in part resulted from misuse of the government procurement card highlighted that bodies need to ensure that their processes for the use of these cards are fit for purpose.

59. The Care Inspectorate currently operates 56 government procurement cards with total expenditure during the 2011/12 financial year of £0.357 million. This represents 5.75% of the Care Inspectorates procurement spend. The government procurement cards are generally used for low value goods and services which are not covered by the purchase order processing arrangements already in place. We reviewed the policies and procedures and we found satisfactory arrangements in place to control and monitor their use.

Governance statement

60. In 2011/12 the Care Inspectorate included a governance statement in its annual report and accounts for the first time. In accordance with Scottish Government guidance, this included description and assessment of the essential components of corporate governance and details of any significant risk-related matters arising during the period.

61. We reviewed the Governance Statement and concluded that it complied with the Scottish Government guidance.

Prevention and detection of fraud and irregularities

62. The Care Inspectorate is responsible for establishing arrangements to prevent and detect fraud and other irregularity. We review and report on these arrangements.

63. The Care Inspectorate 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.

64. There were no instances of fraud reported by the Care Inspectorate in 2011/12.

NFI in Scotland

65. National Fraud Initiative (NFI) is a counter-fraud exercise that uses computerised techniques to compare information about individuals held by different public bodies to identify circumstances that might suggest the existence of fraud or error (matches). Where matches are identified public bodies are expected to investigate these and if fraud and error has taken place, to stop payments and attempt to recover the amounts involved. The exercise also provides assurance on the effectiveness of arrangements and helps deter fraud.

66. Although the Care Inspectorate is not involved in the NFI as an individual organisation, data held on Scottish Government financial systems is sampled as part of the NFI process. No Care Inspectorate related frauds were identified through the last round of the NFI.

67. The next round of NFI - the data collection phase - commences in autumn 2012.

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

68. 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. Auditors consider whether bodies have adequate arrangements in place.

69. We have concluded that the arrangements in the Care Inspectorate, which are consistent with the requirements of the Scottish Government, are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Outlook

70. The Care Inspectorate's organisational structure was reviewed in 2011/12 with the intention to clarify roles, responsibilities and accountability to make the Care Inspectorate a more efficient and effective organisation. This work has been completed and will be implemented during 2012/13.

71. The Care Inspectorate has been undergoing an EU tender process for the procurement of a new Payroll, HR administration and management information system. This tender is almost finalised and it is anticipated that this will go 'live' in November 2012. The system will be shared with Scottish Social Services Council (SSSC) under the shared services agreement.

72. The introduction of the new Payroll and Human Resource Management Information System is expected to include functionality that is better suited to the geographical dispersion of staff and line management responsibilities.

73. The Care Inspectorate intends to develop a code of Corporate Governance that brings together all elements of the governance framework to provide an overview of how the Care Inspectorate delivers effective governance. This will describe the principles of good governance and identify the policies and procedures to demonstrate compliance with these principle.

Best Value, use of resources and performance

74. Audited bodies have responsibility to ensure that arrangements have been made to secure best value. The Auditor General may require that we consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of best value. Where such requirements are not specified we may, in conjunction with audited bodies, agree to undertake local work in this area.

75. As part of their statutory responsibilities, the Auditor General may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. We 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.

76. During the course of our audit appointment we also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years. We may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments.

77. This section includes a commentary on the best value arrangements within the Care Inspectorate. We also summarise headline results against performance outcomes used by the Care Inspectorate and comments on any relevant national reports and the Care Inspectorate's response to these.

Management arrangements

Best Value

78. The Scottish Government guidance for accountable officers on best value in public services requires a systematic approach to self-evaluation and continuous improvement. The guidance identifies the themes 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.

79. The Care Inspectorate is committed to being a best value organisation and extensive work has already commenced on a programme of efficiencies in 2012/13 that will be overseen by the 'Efficiencies Project Management Group' who report to the Resources Committee. A number of activities are already underway in 2012/13 including the development of quality indicators that take cognisance of best value toolkits and guidance issued by the Scottish Government. These indicators assist in supporting a qualitative approach to performance and

to demonstrate continuous improvement. The Care Inspectorate's internal auditors plan to undertake a review of Best Value arrangements in November 2012.

Performance Management

80. The Government Economic Strategy sets out high-level targets for increasing Scotland's sustainable economic growth. These targets assisted the Care Inspectorate in shaping the performance measurement objectives and outcomes to ensure that resources contribute to the National Performance Framework. The Care Inspectorate has a framework in place for monitoring and reporting performance. The framework takes these high level outcomes and objectives and links these to key performance indicators (KPIs). These KPIs then feed into the outcomes and impacts for Scotland. The Care Inspectorate monitors performance against three key outcomes that contribute to all five of the Scottish Governments strategic objectives as set out in the Corporate Plan 2011-2014. Each outcome is underpinned by 18 key performance indicators (KPIs) and performance (KPIs) and performance is measured against these.

81. The Resources Committee and Board receive a Finance Report and a Performance Report at each meeting detailing the current and projected financial position against budget and to the year end and performance against KPIs to enable monitoring throughout the year.

Overview of reported performance in 2011/12

Performance measurement outcomes

82. As the Care Inspectorate is a new organisation many of the KPIs are being used to establish baseline targets for future performance measurement. Two of the eighteen KPIs did have targets set for 2011/12, these were:

- Percentage of final regulated care service and child protection inspection reports and ISLA scrutiny reports published within specific timescales (KPI 11)
- Percentage of efficiency savings achieved (KPI 15).

83. The percentage targets for publication of inspection reports for care services (13 weeks) and child protection reports (14 weeks) outcomes were 95% and 100% respectively. There were 5,866 care services reports published with the 5% shortfall in performance attributed to delays in provider feedback and staff absence.

84. The percentage of efficiency savings to be achieved was 7.6% in 2011/12. The Care Inspectorate reports that it exceeded this, with the final budget for 2011/12 being set at 8.6% (£3.1 million) below the combined budgets of the predecessor bodies. During 2011/12 the Care Inspectorate realised additional efficiency savings of 6% (circa £2.0 million).

Audit Scotland national performance reports

85. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest are detailed in Exhibit 2 below.

Exhibit 2: A selection of national performance reports

- Scotland's Public Finances - addressing the challenges (published August 2011)
- Learning the Lessons of Public Body Mergers (published June 2012)
- The National Fraud Initiative in Scotland (see paragraphs 69 to 71 above)

Source: www.audit-scotland.gov.uk

Scotland's public finances - addressing the challenges

86. The report highlights that all parts of the public sector have less to spend in 2011/12 than in 2010/11, although the level of budget reduction varies significantly with central government funding experiencing the biggest reduction of 12%. Although most bodies were able to agree a balanced budget for 2011/12 the report highlights the risk that savings may not be realised and that unforeseen pressures may emerge which reduce the ability to generate future savings. The report also notes that public bodies are finding it difficult to plan beyond 2011/12 as they do not have a clear view of their future budgets. It highlights the importance of long-term financial sustainability when looking to reduce costs including consideration of key areas such as reducing workforce levels and identifying opportunities to share services.

87. The Audit Committee discussed this report and completed a self-assessment using the checklist included in the report. Management have advised that an associated action plan was unnecessary based on the results of this self-assessment.

Learning the lessons of public body mergers

88. The Audit Scotland report '*Learning the Lessons of Public Body Mergers'* looked at nine mergers between 2008 and 2011 under the Scottish Government's programme to reduce the number of national public sector bodies by 25%. During this audit, Audit Scotland carried out detailed examinations of four mergers; the creation of the Care Inspectorate, Creative Scotland, Skills Development Scotland and Marine Scotland.

89. The report found most recent mergers happened on time, but that permanent leaders were not always in place early enough. There were gaps in the planning for new organisation's later development, and some organisations were operating for too long without a clear vision and plan, and other important decisions were delayed.

90. The four mergers Audit Scotland examined in depth were expected to make net savings of around £63 million over the first four to five years. However, it was not possible to confirm the total costs and savings of mergers or identify performance improvements. The four mergers

spent at least £39 million on staff restructuring with reductions in staff numbers expected to reduce the costs by £20 million per year.

91. The Care Inspectorate was one of the four mergers that were examined in detail. The report estimated that the costs associated with the merger were £5.6 million with estimated savings of £6.2 million over the first four years.

Appendix A: audit reports

External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan	23 January 2012	29 February 2012
Review of Internal Audit	23 January 2012	29 February 2012
Key Controls Report	2 May 2012	23 May 2012
The Role of the Board - Follow up	20 September 2012	3 October 2012
Report on financial statements to those charged with governance (ISA260)	20 September 2012	3 October 2012
Audit opinion on the 2011/12 financial statements	20 September 2012	3 October 2012
Annual Report on the 2011/12 Audit	26 November 2012	6 December 2012

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer / Target Date
1	14	The initial submission of the unaudited financial statements did not include all sections of the management commentary. **Risk - a phased submission of all elements of the annual report and accounts for audit does not enable a fully efficient audit process.**	ET are to review the format of the Annual Report and Accounts with a view to producing a separate Standards and Quality type report that will contain much of the detailed information currently contained within the management commentary. ET will agree a revised timetable and responsibilities for the production and submission of the unaudited statements for 2012/13.	Executive Team (ET) 31 January 2013
2	21	Sustainability reporting is expected to be further developed in 2012/13. **Risk - the Care Inspectorate does not develop the necessary systems and processes in place to ensure that all relevant financial and non-financial information is accurately captured.**	Based on our experience of producing the 2011/12 information, systems of collecting information are being developed in partnership with SSSC to enable us to meet the 2012/13 reporting requirements.	Gillian Berry/ Gillian Batchelor 30 April 2013
3	50	The Care Inspectorate Board's agenda and minutes are placed on the Care Inspectorate's website however it was noted that this is not always on a timely basis. **Risk - a public perception develops that the Care Inspectorate is not sufficiently open and transparent with stakeholders.**	Standing orders are being reviewed as part of a wider review of governance documents. The standing orders will include instruction on the publication of Board papers and minutes.	K McClure 31 March 2013

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer / Target Date
4	51	There is no formal vice chair of the Board. Whilst the current arrangements of regular offline meetings between the Chair and Convenors of each committee provide the Chair with a greater degree of flexibility. **Risk - there is no formal succession planning in place**	The Deputy Chair is a limited role which is not distinct from that of any other Board Member except in the event of the Chair's absence for more than 28 days, incapacity, or if the post of Chair is vacant. This is a contingency arrangement, rather than one to facilitate succession planning. The Chair is a ministerial appointment and may be an individual from out with the current Board members and there is no provision for the Deputy Chair to succeed an outgoing Chair. The Board will consider whether a Deputy Chair role is appropriate.	31 March 2013