Scotland's Commissioner for Children and Young People

Annual report on the 2011/12 audit

AUDIT SCOTLAND

Prepared for Scotland's Commissioner for Children and Young People and the Auditor General for Scotland

December 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

The financial challenges facing the Scottish public sector are well documented, with public bodies facing deep and prolonged cuts in funding. In 2011/12 we assessed the key strategic and financial risks being faced by Scotland's Commissioner for Children and Young People (the Commissioner).

Scotland's first Commissioner for Children and Young People was appointed in April 2004. The current Commissioner, Tam Baillie, took up post in May 2009.

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.

Financial statements

We have given an unqualified audit opinion on the financial statements for 2011/12. We have also concluded that in all material respects, the expenditure and income shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers.

Financial position and use of resources

The Commissioner recorded an underspend of £32,000 in cash terms for 2011/12. Expenditure for the year totalled £1,252,000 with £35,000 of this relating to non-cash items. As in 2010/11, no income was recorded.

During the year £5,000 capital expenditure was incurred.

Governance and accountability

In 2011/12 the Commissioner had effective corporate governance structures in place. We examined the organisation's key financial systems underpinning the organisation's control environment and concluded that they operated sufficiently well for us to place reliance on them, although we highlighted some areas for improvement.

Outlook

Scotland's Commissioner for Children and Young People continues to develop as an organisation. As with all public sector bodies, it has faced challenges to deliver more efficient services at a time of reduced budgets.

Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of the Commissioner. 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 (i.e. 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. A number of 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 Commissioner.

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 Commissioner understands its risks and has arrangements in place to manage these risks. The 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 Commissioner and the Auditor General and should form a key part of discussions with the Audit Advisory Board, 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.

5. This report will be published on our website after consideration by the Audit Advisory Board.

6. The management of the audited body 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, 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 Commissioner 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 Commissioner 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. We confirmed that the expenditure and income in the financial statements was in accordance with applicable legislation and Ministerial guidance.

Accounting issues

14. The financial statements were submitted for audit on 11th July. The Commissioner made a number of changes to the first draft of accounts in response to comments from audit.

15. The revised financial statements were signed by the Accountable Officer on the 26th November 2012.

16. The 2011/12 financial year was challenging with it being the first year of implementation of a new requirement to replace the statement of internal control with a governance statement.

Outlook

17. There are no significant changes to the 2012/13 FReM that are expected to have an impact on the Commissioner's annual financial statements.

Financial position

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

19. We 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.

20. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

Annual outturn

21. The Commission recorded cash expenditure of £1,252,000 in 2011/12. This amounted to an underspend of £32,000, or 2.6%, compared to budget.

22. Expenditure on staff costs for 2011/12 totalled £725,000 and other operating expenditure was £487,000. No income was recorded, which is consistent with 2010/11.

23. Capital expenditure for the year totalled £5,000. The non-cash depreciation charge for the year was £35,000.

Budgetary Control

24. All reports we reviewed during the audit were detailed and highlighted spend areas which required to be closely monitored.

25. Key issues are discussed with the Commissioner as they arise, allowing any financial concerns to be identified and resolved promptly.

Financial position

26. The Statement of Financial Position shows a net assets position of £75,000 at 31st March 2012. £80,000 of this balance relates to non-current assets held by the Commissioner, the remainder is a £5,000 deficit of current liabilities over current assets.

Outlook

2012/13 budget

27. The economic recession has resulted in significant cuts in public sector funding. The Commissioner is required to make spending cuts of 15% over the 3 year period to 2013/14, in line with the SPCB's budget submission.

28. The Commissioner has in place a budget plan to cover this three year period. Savings against the budget in 2011/12 related mainly to planned research work not going ahead and a reduction in funds required for specific consultation work. Future savings have been analysed and projected based upon each of the four strategic aims outlined in the 2012-16 Strategic Plan.

Refer Action Plan No.1

29. In 2010, the Commissioner was asked by the Scottish Parliament Corporate Body (SPCB) to achieve a target of a 15% reduction in real terms on the 2010-11 budget submission over the 3 year period to 2014. The real terms planning assumption of 15% equates to a cash reduction of 9.1% assuming inflation of 6.9% over the three year period. In 2011/12, the Commissioner achieved savings on the 2010-11 budget of 7.48% increasing to 8.59% in the 2012-13 budget. The budget submission for 2013-14 has still to be approved but will result in total savings over the three years of £124,000 representing a 9.19% cash reduction on the 2010-11 budget. .

Governance and accountability

30. 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.

31. 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.

32. 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.

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

Corporate governance

Overall effectiveness

34. We found that overall, corporate governance arrangements operated effectively during 2011/12, although there is scope to make improvements in some areas as outlined below.

Risk Management

35. Risk management is a central part of sound governance and good management. Good risk management should provide increased confidence in the Commissioner's ability to:

- achieve it's objectives
- exercise control over the threats facing the day to day activities, and
- enable better take up of any opportunities available to it as an organisation.

36. The Commissioner has in place a risk register which is formally reviewed and managed quarterly by the Management Team. Our work during the course of the year identified that this document could be improved upon to better reflect the risks and challenges facing the Commissioner.

37. In our Review of Internal Control Systems 2011/12 report (controls report), we highlighted the lack of Risk Management Policy within the organisation. Since this report was issued in July,

we have agreed to work with the Commissioner during 2012/13 to improve and strengthen their risk management procedures to ensure that they demonstrate best practice in this area.

Refer Action Plan No.2

Internal control

38. 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 of audited bodies as a whole. The extent of this work is informed by our assessment of risk and the activities of internal audit.

39. Overall the systems of internal control were operating effectively during 2011/12. This enabled us to take the planned assurance on these systems for the audit of the financial statements. We also identified a number of control weakness or where improvements could be made to existing arrangements and these weaknesses along with agreed actions were detailed in our controls report in July 2012.

Strategic objectives

40. The Commissioner published a new four year strategic plan in February 2012. This document sets out the strategic direction for the office of the Commissioner for the period to 2016. The plan has identified four overarching strategic aims as well as an annual timetable for implementation.

41. The plan goes into further detail as to the estimated costs each year of achieving the strategic aims. Careful monitoring of this breakdown will greatly assist the Commissioner in being able to deliver strategic objectives within budget.

Prevention and detection of fraud and irregularities

42. The Commissioner is responsible for establishing arrangements to prevent and detect fraud and other irregularity. We review and report on these arrangements.

43. The Commissioner has a staff handbook in place which contains a Public Interest Disclosure (Whistleblowing) policy detailing how staff can raise concerns to particular external bodies.

44. However, the Commissioner does not have a specific anti-fraud policy in place. We would expect the Commissioner to have an anti-fraud policy in place to outline staff responsibilities in relation to the prevention and detection of fraud and to detail how any investigations should be conducted and concluded.

Refer Action Plan No.3

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

45. 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 consider whether bodies have adequate arrangements in place.

46. We found that there were procedures in place to help ensure appropriate standards of conduct and to help prevent and detect bribery and corruption.

Outlook

47. The current environment of reducing resources and increasing expectations is one in which the organisation's governance and accountability arrangements will be tested.

48. The Commissioner invested time and resource during 2011/12 to ensure that their working practices were as efficient and effective as possible, implementing a number of improvements within this area. This improvement work will need to continue in the coming years.

National Performance Audit Reports

49. 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 which will be of direct interest are:

- Scotland's Public Finances - addressing the challenges

50. The report outlines some of the key risks and issues that public bodies need to consider and manage. Many of these risks are not new to the public sector but the likelihood of their occurrence has increased as public bodies seek to implement changes.

Outlook

51. In April 2011, the Equality Act 2010 introduced a new public sector ‘General Duty’ which encourages equality to be mainstreamed into public bodies’ core work so that it is not a marginal activity but part and parcel of how public bodies operate. Following on from this the Scottish Government consulted on a set of ‘Specific Duties’ which came into force in May 2012. There are nine specific duties listed which aim to support public bodies to better perform against the ‘General Duty,’ including the duty to assess the impact of equalities in all policies and decisions as well as the requirement to publish a set of equality outcomes (and reporting requirements) no later than 30 April 2013.

Appendix A: audit reports

External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue
Annual Audit Plan	1 March 2012
Key financial controls assurance report	6 July 2012
Report on financial statements to those charged with governance	13 November 2012
Audit opinion on the 2011/12 financial statements	13 November 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	26	**Budget reductions** Over the three year period between 2010/11 and 2013/14 the Commissioner is committed to achieving as a minimum a 15% real terms decrease in its budget. ***Risk. There is a risk that the Commissioner may not be able to achieve committed budget savings as a result of increasing expectations.***	The target of a 15% real terms decrease equates to a cash reduction of 9.1% over the three year period. With the submission of the 2013-14 budget, actual cash savings achieved will be 9.19%	Commissioner/ Head of Corporate Services	March 2014
2	36	**Risk Management Arrangements** The Commissioner does not have a Risk Management Policy in place. In addition, the risk register could be improved to better reflect the risks facing the organisation. ***Risk. The approach the organisation takes to identify and managed risks is not embedded across the organisation.***	A Risk Management Policy will be developed with the support of Audit Scotland. The risk register is currently under review and will be amended to better reflect the risks and challenges facing the Commissioner	Head of Corporate Services Head of Corporate Services/Information Officer	March 2013 March 2013
3	43	**Fraud detection and prevention arrangements** The Commissioner does not have an anti-fraud policy or fraud response plan in place. ***Risk: Staff may be***	An anti-fraud policy will be developed outlining staff responsibilities in relation to detecting and reporting fraud	Head of Corporate Services	March 2013

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		unaware of their responsibilities in relation to detecting and reporting fraud, leaving the Commissioner exposed to potential fraudulent activity.			