

Scottish Human Rights Commission

Annual report on the 2011/12 audit



Prepared for Scottish Public Services Ombudsman 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.

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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 the Scottish Human Rights Commission (the 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.

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 Scottish Parliament awarded the Commission a cash budget of £960,000 for the financial year 2011/12. During the year, the Commission spent £647,000 on staff costs and £322,000 on administration costs.

The Statement of Financial Position shows a net assets position of (£15,000) at 31st March 2012 (£1,000 at 31st March 2011), mostly represented by a surplus of current liabilities over current assets. The Commission has a cash and cash equivalents balance of £69,000 at 31 March 2012 (£106,000 at 31 March 2011).

Governance and accountability

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

During the year work commenced on a business excellence project which is expected to continue well into 2013. The project includes reviewing all governance structures and processes and implementing necessary changes to ensure compliance with the business excellence model.

Outlook

Over the three year period between 2010/11 and 2013/14 the Commission is committed to achieving as a minimum a 15% real terms decrease in its budget. The current environment of reducing resources and increasing expectations is one in which the organisation's governance

and accountability arrangements will be tested. Sound financial planning and monitoring arrangements will be key to delivering balanced budgets.

Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of the Commission. 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 Commission.
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 Commission understands its risks and has arrangements in place to manage these risks. The Chair of the Commission, as the Accountable Officer, should ensure that he is satisfied with the proposed management action and has a mechanism in place to assess progress.
4. This report is addressed to the Commission and the Auditor General and should form a key part of discussions with the Finance Audit and Risk Committee (FRAC), 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 FRAC.
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 Commission 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 Commission 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 also 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, (the Scottish Parliamentary Commissions and Commissioners etc. Act 2010).

Outlook

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

Financial position

15. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
16. 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.
17. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

Annual outturn

18. The Scottish Parliament awarded the Commission a cash budget of £960,000 for the financial year 2011/12. During the year, the Commission spent £647,000 on staff costs and £322,000 on administration costs.

Financial position

19. The Statement of Financial Position shows a net assets position of (£15,000) at 31st March 2012 (£1,000 at 31st March 2011), mostly represented by a surplus of current liabilities over current assets. The Commission has a cash and cash equivalents balance of £69,000 at 31 March 2012 (£106,000 at 31 March 2011).
20. The Commission is required to inform the Scottish Parliamentary Corporate Body (SPCB) of any net liability position at the year end. We understand SPCB is aware of the financial position of SHRC at 31 March 2012.

Outlook

2012/13 budget

21. The economic recession has resulted in significant cuts in public sector funding. The Commission is required to make spending cuts of 15% over the 3 year period using 2010/11 as the base year, in line with the SPCB's budget submission.

Refer Action Plan No. 1

22. We will monitor progress in achieving the intended savings as part of our annual audit on an ongoing basis.

Governance and accountability

23. 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.
24. 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.
25. 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.
26. In this part of the report we comment on key areas of governance.

Corporate governance

Overall effectiveness

27. 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.
28. We attended one of the FRAC meetings during 2011/12. We observed that the FRAC operates well and makes an effective contribution to the organisation's overall governance.
29. During the year, work commenced on a business excellence project which is expected to continue well into 2013. The project includes reviewing all governance structures and processes and implementing necessary changes to ensure compliance with the business excellence model. Financial systems, human resource procedures, risk management and staff development have been reviewed and revised recently as part of the project.
30. The FRAC is monitoring progress of the business excellence project.

Internal control

31. 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.

32. Overall the systems of internal control were operating effectively during 2011/12. No material weaknesses in the financial accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the accounts
33. We identified a few control weakness or examples where improvements could be made to existing arrangements and these weaknesses along with agreed actions were detailed in our controls report in July 2012.

Risk Management

34. Risk management is a central part of sound governance and good management. Good risk management should provide increased confidence in the Commission's ability to:
 - achieve it's objectives
 - exercise control over the threats facing the day to day activities
 - enable better take up of any opportunities available to it as an organisation.
35. We are pleased to report that since the start of the year, the Commission has significantly focused on improving its approach to managing risk.
36. The Commission has a formal risk management policy in place setting out the risk management framework for the organisation, and a strategic risk register which drives the risk management process. The risk register is reviewed annually and monthly business risk management team meetings are held to discuss the individual risks and mitigating controls in detail.
37. Individual projects have their own risk registers which are monitored at management level and specific project risks are reported monthly at budget review meetings.
38. The risk register is being reviewed to ensure it is fit for purpose, following the new requirements of the governance statement. Work is also ongoing to continue to ensure that underlying elements of the approach to risk management are developed and embedded to ensure that risk is identified and managed at all stages in the development and delivery of business objectives.

Prevention and detection of fraud and irregularities

39. The Commission is responsible for establishing arrangements to prevent and detect fraud and other irregularity. We review and report on these arrangements.
40. We are pleased to note that there is a Fraud Policy in place which is available to all staff. However, there are no documented procedures in place for the prevention, detection or response to fraud. There is a risk that any fraud will remain undetected, or where a fraud is identified, there is no guidance on how this should be addressed.

Action point 2

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41. There is no history of fraud or irregularity within the Commission and staff we met with were familiar with the anti-fraud policy.

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

42. 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.
43. 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

44. The current environment of reducing resources and increasing expectations is one in which the organisation's governance and accountability arrangements will be tested. The Business Excellence project is aimed at ensuring the Commission's governance structures and processes are sound and comply with best practice.

National Performance Audit Reports

45. 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.
46. 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

47. 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	2 March 2012
Key financial controls assurance report	16 July 2012
Report on financial statements to those charged with governance	28 September 2012
Audit opinion on the 2011/12 financial statements	28 September 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	21	<p>Budget reductions</p> <p>Over the three year period between 2010/11 and 2013/14 the Commission is committed to achieving as a minimum a 15% real terms decrease in its budget.</p> <p><i>Risk. There is a risk that the Commission may not be able to achieve committed budget savings as a result of increasing responsibilities and expectations.</i></p>	The Commission has already submitted a budget to the SPCB for the period 2013/14 that achieves the 15% real terms savings in budget.	Business Manager	Achieved
2	40	<p>Fraud response procedures</p> <p>With the exception of the Whistle Blowing policy, there are no documented procedures in place for the prevention, detection or response to fraud.</p> <p><i>Risk: A fraud may remain undetected, or not dealt with appropriately.</i></p>	The Commission considers the risk of fraud to be low. However, procedures will be prepared for the prevention, detection and response to fraud.	Business Manager	January 2012