# Scottish Social Services Council

## Annual Report on the 2011/12 Audit

AUDIT SCOTLAND

Prepared for the Scottish Social Services Council and the Auditor General for Scotland

October 2012

# Contents

# Key messages

## 2011/12

We have given an unqualified opinion that the financial statements of the Scottish Social Services Council (SSSC) for 2011/12 give a true and fair view of the state of the SSSC's affairs and of its net expenditure for the year. 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 2011/12, changes were required to the unaudited financial statements for the way in which the presentation of pension costs were disclosed. One of the main reasons for this was to promote consistency in the application of IAS19 Employee Benefits for the accounting and disclosures for pension costs across Non Departmental Public Bodies. The main changes included the inclusion of the actuarial loss on pension assets/liabilities on the face of the Statement of Comprehensive Net Expenditure. The effect increased net expenditure from £9,919,000 to £12,827,000, with actuarial gains now being shown below net operating cost and additional disclosures have been added to the annual report and accounts.

Overall the corporate governance, system of internal control and the arrangements for the prevention and detection of fraud operated satisfactorily during the 2011/12. These include an effective Audit Committee which challenges senior management on key issues as appropriate. The SSSC is also supported by a robust internal audit function.

## Outlook

We confirm the financial sustainability of the SSSC on the basis of its financial position and projected three year financial summary and based on a stable grant in aid provision. We recognise that the SSSC have little or no control over some of the income streams, representing 19% of total income. However robust budgeting, modelling and monitoring systems are in place which assist in controlling these factors.

# Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of the Scottish Social Services Council (SSSC). 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 any significant issues identified. 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 SSSC.

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 SSSC understands its risks and has arrangements in place to manage these risks. The Council 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 SSSC 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.

6. The management of the SSSC 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 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. 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.

9. Auditors review and report on, as appropriate, other information published with the financial statements, including the management commentary, remuneration report and governance statement. 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 opinions

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

11. The SSSC 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.

13. The threshold for WGA certification was increased to £100m and as a result, WGA was not required to be certified by Audit Scotland in 2011/12.

### Regularity

14. 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

15. The financial statements were submitted for audit on 29 June, in accordance with a pre-agreed timetable. The audit commenced in August and was completed within 5 weeks. The working papers supporting the accounts were of a high quality and the timely responses from SSSC staff allowed us to conclude our audit within the agreed timetable as outlined in our Annual Audit Plan.

16. A report covering the key matters arising from the financial statements audit (ISA260 report) was issued on the 20th September 2012 and presented to the Audit Committee on 24 October 2012. The financial statements are due to be signed by the Accountable Officer on 30 October following Council approval.

## Presentational adjustments to the unaudited accounts

17. 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.

## Pension Disclosures

18. Changes were required to the unaudited financial statements for the way in which the presentation of pension costs were disclosed. One of the main reasons for this was to promote consistency in the application of IAS19 Employee Benefits for the accounting and disclosure of pension costs across Non Departmental Public Bodies.

19. The main changes included 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 £9,919,000 to £12,827,000, with actuarial gains now shown below net operating cost and additional disclosures have been added to the annual report and accounts. As a result of this change, the prior year balances were restated for consistency.

20. These disclosures provide an analysis of the impact of the actuarial pension valuation adjustments and reconcile 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 reconciling the deficit shown on the Statement of Comprehensive Net Expenditure to the small surplus for funding and budgeting purposes.

**Table 1: Reconciliation of Net Expenditure to Outturn**

| Description | £000 |
|---|---|
| Deficit per the Statement of Comprehensive Net expenditure | 12,827 |
| Reversal of IAS19 Pension accounting adjustments | (2,908) |
| Funding from grants and grant in aid | (9,829) |
| Funding from grants and grant in aid to fund depreciation | (225) |
| (Surplus)/Deficit on funding and budgeting basis | (135) |

### Whole of Government Accounts

21. The whole of government accounts (WGA) is the consolidated financial statements for all balances of government in the UK. The aims of WGA are to provide improved data for fiscal planning, increase transparency and improve accountability to Parliament. Most central government bodies are required to submit a consolidation pack by 31 July 2012. The auditor certification threshold increased from £50 million (2010/11) to £100 million in 2011/12. Therefore as the SSSC's assets, liabilities, income and expenditure are below the £100m threshold, no audit certification for the WGA return was required.

## Outlook

### Sustainability Reporting

22. 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. The sustainability report should contain:
    - a simple overview commentary covering a body’s performance in the reported year along with an overview of forward plans
    - a table of financial and non-financial information covering the body's emissions, waste, water and any other finite-resource consumption for the financial year to which it relates.

23. Public bodies in Scotland are bound by the Climate Change Public Bodies Duties set out in Part 4 of the Climate Change (Scotland) Act 2009. Whilst the Act does not require reporting on the duties, appropriate sustainability reporting may assist public bodies to demonstrate compliance with the climate change duties and the Public Bodies Duties Guidance encourages a voluntary approach to reporting.

24. The SSSC has included a sustainability report in the 2011/12 financial statements. Although disclosure was made there were instances where the minimum disclosure requirements were not fully met due to the inability to obtain required information. Officers have been advised

that historical sustainability information covering 2010/11 and 2011/12 will be required to be published in line with the Public Services Reform Act.

25. We recommend that management ensure that appropriate information is captured and included in the sustainability report in line with Scottish Government guidance in the 2012/13 financial statements.

**Refer action plan point 1**

# Financial position

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

27. 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.

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

## Financial results

29. The annual budget approved by Scottish Parliament was £10.040 million for 2011/12. Gross revenue expenditure for the year totalled £9.919 million comprising staff costs of £5.796 million, other operating costs of £2.789 million and payments of grants, awards and bursaries of £5.276 million.

30. During 2011/12 the SSSC received total revenue income of £13.782 million, comprising £9.725 million grant in aid from the Scottish Government, £0.908 million from other Government grants and £3.953 million from fees and other income. An additional £0.225 million was received to fund depreciation. The final outturn position was a small surplus of £0.135 million as shown in Table 2: below.

31. The SSSC 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 by filling posts only when the workload dictated and in accordance with fewer than anticipated new registrations.

32. Practice learning fee income also increased to meet the number of practice learning days required, and an increase in modern apprenticeships generated additional income that was not anticipated. These were offset by an overspend on implementation costs of the new SEQUENCE system, an integrated system for registration, conduct, qualifications and legal case management. The remaining underspends were used to enhance functionality and staff training in 2011/12.

**Table 2: 2011/12 Outturn against budget**

| | Final Budget £000 | Actual Outturn £000 | Under/ (Over) £000 |
|---|---|---|---|
| **Operating Income:** | | | |
| Fee income | (1,135) | (1,151) | (16) |
| Other grant and income | (2,592) | (2,802) | (210) |
| **Total operating income** | **(3,727)** | **(3,953)** | **(226)** |
| **Operating Costs:** | | | |
| Staff costs | 5,909 | 5,796 | (113) |
| Other operating costs | 2,578 | 2,789 | 211 |
| **Grants, awards & Bursaries** | **5,267** | **5,276** | **9** |
| **Total operating cost** | **13,754** | **13,861** | **107** |
| Net bank charges/(interest) | 13 | 11 | (2) |
| **Net revenue expenditure** | **10,040** | **9,919** | **(121)** |
| **Funded by:** | | | |
| Grants & grant in aid | (9,815) | (9,829) | (14) |
| To fund depreciation | (225) | (225) | 0 |
| (Surplus) / Deficit | **0** | **(135)** | **(135)** |

*Source: Scottish Social Services Council Annual Report 2011/12*

## Financial position

33. On the basis of the information in this section of the report, we have concluded that, subject to significant changes in Scottish Government funding and the management of risks and cost pressures associated with significant elements of future expenditure, the financial position of the SSSC is stable and its activities are financially sustainable. The SSSC is a non departmental public body and receives almost all of its funding from the Scottish Government.

34. The Statement of Financial Position at 31 March 2012 shows total assets of £4.295 million (31 March 2011: £1.790 million). The SSSC has a net liability position of £4.953 million. Most of this is accounted for by the Pension liability of £6.175 million (31 March 2011: £3,267 million). The Pension liability is sensitive to actuarial changes in assumptions and can fluctuate significantly year on year.

## Budgetary control

35. In setting the 2011/12 budget, a rigorous approach was taken for expected increases or decreases in service provision and the impact on each budget heading. Where possible, a zero based approach was adopted

36. Budget monitoring arrangements are in place with Finance reports being presented at each Executive Management Team, Finance and Resources Committee and Council meeting. These reports provide details of the financial results for the period and the projected outturn for the financial year. Each of these reports clearly explained the reasons for any projected overspends or underspends with quantified reasons for those.

37. The main budget variances during the year included the development of a new integrated system (SEQUENCE) to deal with the registration, conduct, qualifications, legal case management and communication with stakeholders. The implementation costs of £0.752 million were £0.172 million more than budget due to the increased migration costs.

38. This overspend was offset mainly with underspends in staff costs of £0.113 million as appointments to new posts were made only when the workload dictated and in accordance with fewer than anticipated new registrations. Practice learning fee income also exceeded anticipated income by £0.113 million to meet the number of practice learning days organised by Higher Education Institutes'. There was also additional income over and above budget of £0.052 million for Modern Apprenticeships in 2011/12.

## Pension Liability

39. The SSSC employees are members of the local government pension scheme which is a 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. The financial statements include a pension liability of £6.175 million (increase of £2.908 million from last year).

40. This change is due to the reduction in the scheme assets from £13.499 million to £11.901 million. Long term returns on assets are also significantly lower than 2010/11 (1.2 percentage points) with equity investments reducing from 8.2% to 7.1% which is a 13% decrease. In monetary terms from £9.719 million to £8.093 million. The sensitivity that surrounds actuarial assumptions can result in large variances year on year.

# Capital investment and performance 2011/12

41. The SSSC's registration and conduct system, OSCAR, was a joint system shared amongst the SSSC, the General Social Care Council (GSCC), Care Council for Wales and, Northern Ireland Social Care Council. With the abolition of the GSCC the continued operation of the OSCAR system was unviable. Following approval from the Scottish Government, the SSSC procured and has rolled out a replacement system SEQUENCE to deal with registration, conduct, qualifications, legal case management and communication with stakeholders.

42. SEQUENCE went live in March 2012 however due to increased migration costs the implementation costs exceeded the budget in year by £0.172 million. This overspend was managed and met by underspends elsewhere within the budget.

## Financial planning to support priority setting and cost reductions

### 2012/13 budget and reporting

43. In March 2012 the Council approved a balanced budget for 2012/13 of £13.914 million (2010/11: £14.346 million) a 3.1% reduction compared to 2011/12. Expenditure will mainly be funded through government grants and grant in aid with (£9.977 million this includes one off funding for the new SEQUENCE system), practice learning fees (£2.477 million), registration fees (£1.294 million) and other income (£0.165 million). Efficiency savings required to be made in 2012/13 are £600,000.

44. Additional financial pressures expected in 2012/13, include:

- Legal related costs - these are built into the budget as far as possible however since the removal of specific reserves in 2010/11 the risk of costs arising from the unpredictability of legal cases continues to be of concern
- Practice learning fees - a potential spending pressure due to the inaccuracy of practice learning projections supplied by universities

45. Discussions are on going with the sponsor branch of the Scottish Government to obtain assurances that due to the nature, unpredictability and complexity of legal costs that any significant legal costs are met by the sponsor. The sponsor has confirmed that as the SSSC has little control over practice learning fee expenditure and that the risk and responsibility for dealing with significant overspends remain with the sponsor.

46. Financial reports to the end of August 2012 indicate that the Council are projecting a small overspend. This mainly relates to the implementation of SEQUENCE and the requirements for other ICT projects to be brought forward to improve the performance of this system, in particular Windows 7. These projects were already planned for introduction in 2013/14 however it is considered necessary to bring these forward to the current financial year. Finance are currently progressing a mid-year budget review, undertaking discussions with the Sponsor and considering options to contain this projected overspend within existing budgets.

**Refer action plan point 2**

47. Due to the timing of the Council meetings, the delay in the Council meeting due to not being quorate and with the change in membership of Council during 2012/13 this projected overspend will not be communicated to Council formally until the next Council meeting of 7 November. The finance team are proactively taking action on this issue however are restricted in terms of financial reporting due to the rescheduling and timing of meetings.

48. Financial reporting is a key governance control for monitoring and projecting income and expenditure, and taking remedial action appropriately and on a timely basis. It also assists in making key management decisions. It is important that meetings are scheduled to ensure that

quarterly financial reporting can occur at key parts of the financial year to strengthen the budget monitoring and reporting arrangements in place.

**Refer action plan point 3**

49. The number of new registrations continues to increase each year as new sectors of the workforce are required to register. The effect of this is that registration staff and associated costs will increase although this will be partially offset by an increase in registration income. The increase in registration numbers may also lead to increased conduct and legal costs.

**Refer action plan point 4**

### Workforce reduction and workforce planning

50. During 2011/12, three staff in the SSSC accepted voluntary early severance. All redundancy and departure costs were paid in accordance with the financial requirements of the SSSC's voluntary severance scheme and the Local Government Pension Scheme Regulations for Scotland. Details of the cost of these exit packages are shown in the 2011/12 annual report and accounts.

### Partnership working

51. In the current economic climate the area of partnership working and shared services is increasing in importance and scrutiny. The SSSC already has a partnership arrangement in place with the Care Inspectorate for the provision of financial services, internal audit contract, payroll, and information, communications technology and facilities management. We found arrangements for the shared services to be working satisfactorily during 2011/12.

52. A Shared Services Strategy was approved in June 2011 as a declaration of intent, defining the SSSC and the Care Inspectorate (CI) long term plans. The strategy sets out the aims and activities for ensuring that the support services maximise their potential through appropriate sharing arrangements and are both aligned with and recognised for their contribution to delivering corporate plan objectives. The total recharge to SSSC in 2011/12 for shared services was £0.729 million.

## Outlook

### Financial forecasts beyond 2012/13

53. In line with the Comprehensive Spending Review 2012/13 to 2014/15 the sponsor has indicated that the SSSC will be required to identify savings over the next three years. Using 2011/12 core grant in aid (£9.3 million excluding bursaries) as the initial baseline Exhibit 1 illustrates the following efficiencies that are required to be made.

**Exhibit 1: Efficiencies 2012/13 to 2014/15**

| | 2012/13 | 2013/14 | 2014/15 |
|---|---|---|---|
| Efficiencies Required | £600,000 | £150,000 | £150,000 |

*Source: Scottish Social Services Council Budget report*

54. Budget holders were asked to identify savings of 2%, 5% and 10%. These savings were then considered alongside Best Value reviews and an activity analysis against outcomes. The 2012/13 budget was agreed at Council on the 27th March 2012.

55. These financial plans are based on a stable grant in aid provision in line with the 2012/13 allocation. Sources of income, other than Grant in Aid and practice learning fee income represent approximately 19% of total income. The SSSC recognises the risk that accompanies these sources of income and the importance of robust financial management arrangements.

# Governance and accountability

56. 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.

57. 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.

58. 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.

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

## Corporate governance

### Overall effectiveness

60. 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

61. The Council is responsible for ensuring that the SSSC fulfils the aims and objectives set out by the Scottish Government. The role of the Board includes establishing the overall strategic direction of the SSSC, monitoring performance against agreed objectives and ensuring that statutory requirements for the use of public funds are complied with. The Council is supported by six sub-committees with key areas of expertise and responsibility, these are:

- Audit Committee
- Conduct Committee
- Education and Workforce Regulation Committee
- Finance and Resources Committee
- Registration Committee
- Remuneration Committee

62. 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.

63. Audit Scotland is currently undertaking a follow-up review of the role of boards in Scottish public bodies and we will further review governance arrangements in place in light of the findings of the follow up and any response to this by the Scottish Government.

64. Although the follow up of the role of boards did not include the review of the SSSC we have some observations on the operation of the existing arrangements, which are set out below:

- The Chief Executive is the designated Accountable Officer for the SSSC and is personally responsible to Scottish Ministers for securing propriety and regularity in the management of public funds and for the day-to-day operations and management of the SSSC
- Day-to-day governance of the SSSC is provided by the Executive Management Team, comprised of the Registrar, the Director of Resources and the Legal Adviser. This team supports the Chief Executive in her role and meets monthly to discuss relevant issues.
- Oversight of corporate governance, risk management and internal control is provided by the audit committee, which comprises five external members and reports to the Chief Executive as Accountable Officer.

65. In October 2011, members completed a self-assessment questionnaire as recommended in the *'The Role of Boards'* report. The results were collated and a development session was held in October to discuss the results. Members agreed that the role of the Council, as the governing body of the SSSC was:

- To provide leadership and strategic direction.
- To define control mechanisms to safeguard public resources.
- To scrutinise and monitor the organisation's performance, finances and risks.
- To report on stewardship and performance.

66. Members agreed to adopt the six core principles of the Good Governance Standard, which are:

- Focussing on the organisation's purpose and on outcomes for citizens and service users.
- Performing effectively in clearly defined functions and roles.
- Promoting values for the whole organisation and demonstrating the values of good governance through behaviour.
- Taking informed, transparent decisions and managing risk.
- Developing the capacity and capability of the governing body to be effective.
- Engaging stakeholders and making accountability real.

67. A number of actions were captured in an action plan to further improve the governance arrangements in place. An example of these actions are:

- Improvements to the system of induction training and assessment of Council members by drawing up knowledge, skills and experience matrix and conducting an audit against this.
- Development of an induction pack including a detailed induction programme covering learning about the business and development generic Board skills.
- Development of appraisal arrangements and holding appraisal meetings with members.
- Specific training on openness, transparency and scrutiny by an external supplier.

## Internal control

**68.** 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.

**69.** 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.

**70.** 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, payroll, strategic planning and budget setting. This not only avoided duplication of effort but also enabled us to focus on key risk areas.

## Use of resources - Government Procurement Cards

**71.** Across the public sector government procurement cards (GPC) 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 GPC highlighted that public bodies need to ensure that their processes for the use of these cards are fit for purpose.

**72.** The SSSC currently operates 26 GPCs with total expenditure during the 2011/12 financial year of £0.108 million. The GPCs are generally used for low value goods and services which are not covered by the purchase order processing arrangements already in place. We did a high level review of the policies and procedures in place and we found satisfactory arrangements in place to control and monitor their use.

## Governance statement

**73.** In 2011/12 the SSSC 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.

74. We reviewed the governance statement and concluded that it complied with the Scottish Government guidance.

## Prevention and detection of fraud and irregularities

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

76. The SSSC 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.

77. An incidence of fraud was reported during the 2011/12 year. The fraud was committed against the SSSC and related to a claim for postgraduate bursary funding where it came to light that the claimant was in receipt of other state benefits they were not entitled to that had an impact on funding received from the SSSC. The fraud was investigated under the SSSC Fraud Policy and was referred to the appropriate bodies for action. The investigation concluded that there was no weakness in the control environment and therefore no requirement to change SSSC procedures or practices.

### NFI in Scotland

78. 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.

79. Although the SSSC 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 SSSC related frauds were identified through the last round of the NFI.

80. Results were published by Audit Scotland in May 2012 in a report on the NFI. This highlighted that fraud, overpayments and recoveries totalling £19.8 million had been identified across Scotland in the most recent exercise and outcomes of £78 million had been achieved since NFI was first introduced. 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

81. 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.

82. We have concluded that the arrangements in SSSC, 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

83. The SSSC reviewed its organisational structure in 2011/12 with the intention to clarify roles, responsibilities and accountability and make the SSSC a more efficient and effective organisation. This work has now been completed with the role of the Executive Management Team being one of those changes and will be implemented during 2012/13. This is an area we will focus our governance and risk assessment work in the 2012/13 audit.

**Refer action plan point 5**

84. With the introduction of the new registration system, an information and communication strategy will be developed following a business needs analysis of the SSSC. This will assist in tailoring the strategy to meet the needs of the SSSC.

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

# Best Value, use of resources and performance

86. Audited bodies have responsibility to ensure that arrangements have been made to secure Best Value. 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 such requirements are not specified we may, in conjunction with audited bodies, agree to undertake local work in this area.

87. As part of their statutory responsibilities, the Auditor General and the Accounts Commission 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.

88. 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.

89. This section includes a commentary on the Best Value arrangements within the SSSC. We also summarise headline results against performance outcomes used by the SSSC and comments on any relevant national reports and the body's response to these.

## Management arrangements

### Best Value

90. 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.

91. The SSSC implemented new arrangements for overseeing and monitoring the delivery of Best Value, linking these to the delivery of efficiency savings arrangements. The approach set out a revised system to Corporate Planning and Budgeting through linking costs of activities to outcomes to assist in responding to ever tightening budgets. This approach has provided the SSSC with a mechanism for the prioritisation of its services and resources, identifying opportunities for delivering efficiencies and clearly linking priorities and objectives to the SSSC's outcomes.

### Performance Management

92. The Government Economic Strategy sets out high-level targets for increasing Scotland's sustainable economic growth. These targets assisted the SSSC in shaping the performance measurement objectives and outcomes to ensure that resources contribute to the National Performance Framework.

93. The SSSC 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 (KPI's). These then feed into the outcomes and impacts for Scotland. The Finance and Resources Committee receive Finance and Performance reports detailing the current and projected financial position against budget, and to the year end. They also receive performance against KPI's to enable monitoring throughout the year.

## Overview of reported performance in 2011/12

### Performance measurement outcomes

94. The SSSC monitors performance against 17 key performance indicators across the Scottish Government's national outcomes. In 2011/12 the SSSC achieved eight of these including:

- 70% of employers in a survey who can identify improvement in practice as a result of their workforce gaining qualifications for registration
- 50% of employers and social workers who can provide evidence that Post Registration Training and Learning, in relation to protection of children and vulnerable adults, has improved in practice
- 100% of initial risk assessment of new cases carried out within 24 hours of the case being received and 100% of full risk assessments carried out within 48 hours
- 100% of all completed registrant applications processed in 60 days.

95. The performance targets that were not achieved included the amount of employers who were aware of the SSSC's vision for leadership and development and the belief that this would help improve leadership capacity in their own organisation (target 70%, response 59%). The other being the percentage of employers who reported that the use of the workforce development tools and continuous learning framework have assisted their workforce planning and development (target 50%, response 27%). All other indicators were either partially achieved or not yet achieved.

## National performance reports

96. 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 for 2011/12 and 2012/13 below.

**Exhibit 2: Selection of Performance Reports**

| Published 2011/12 | Published 2012/13 |
|---|---|
| • Scotland's Public Finances - addressing the challenges (August 2011) | • Learning the Lessons of Public Body Mergers (June 2012) |
| • The National Fraud Initiative in Scotland (May 2012) - refer paras 69 to 71 above | • Managing ICT Contracts (August 2012) |

*Source: www.audit-scotland.gov.uk*

## Scotland's public finances - addressing the challenges

**97.** Published in August 2011 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 per cent. 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.

**98.** 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

**99.** Public sector mergers need strong leadership from the outset to ensure important decisions are made about the new organisation's vision, structure and plans.

**100.** 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.

**101.** 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.

**102.** 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 to date. 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.

103. With 60% of mergers happening in the past two years, it is too early to see performance improvements. Looking ahead, merging bodies need greater clarity about the intended benefits of merger, their current performance and how to measure whether this improves.

## Managing Information and Communication Technology Contracts

104. The report highlights that significant weaknesses were found in the management of three public sector information and communication technology (ICT) programmes costing a combined £133 million to date.

105. The report states that many of the problems stemmed from the lack of specialised information technology skills and experience. It also identified that there were weaknesses in basic project management and control, and the 'Gateway' systems that the Scottish Government uses to provide assurance on the management of projects was not always effective.

106. Audit Scotland recommended that the Scottish Government considers the benefits that could be achieved by providing a central resource of specialised ICT expertise and advice for public bodies undertaking such programmes. The government also needs to comprehensively review how it can best support and oversee public bodies undertaking significant ICT programmes.

# 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 | 21 February 2012 | 29 February 2012 |
| Review of internal audit | 2 February 2012 | 29 February 2012 |
| Key controls report | 2 May 2012 | 23 May 2012 |
| Report on financial statements to those charged with governance (ISA260) | 20 September 2012 | 24 October 2012 |
| Audit opinion on the 2011/12 financial statements | 24 October 2012 | 24 October 2012 |
| Annual Report on the 2011/12 Audit | 24 October 2012 | 24 October 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 | 25 | The SSSC has included a sustainability report in the 2011/12 financial statements. Although disclosure was made there were instances were the minimum disclosure requirements were not fully met due to the inability to obtain required information.<br>**Risk** - From 2012/13 the sustainability report will be mandatory. There is a risk that systems and processes are not in place to capture all the relevant data for the report. | Based on our voluntary disclosure in 2011/12 we are reviewing our sustainability reporting processes and requirements for the 2012/13 Annual Report and Accounts. | N Gilray and K Dick<br>31 March 2013 |
| 2 | 46 | There is a small projected overspend for the SSSC's 2012/13 budget.<br>**Risk** - Finance is undertaking a mid-year budget review and are in discussions with the Sponsor. It is anticipated that this small overspend can be met within existing budgets however there is a risk that the SSSC overspend their budget in 2012/13. | Managed through the budget monitoring process. | K Dick<br>Ongoing |
| 3 | 48 | Due to the timing of Council meetings, change in membership and one meeting not being quorate this has led to delays in financial reporting in a timely manner to the Council.<br>**Risk** - There is a risk that Financial Reporting does not | This is a one off occurrence due to the change in Council members and as such is not considered to be of high risk. | N/A |

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer / Target Date |
|---|---|---|---|---|
| | | occur at key intervals during the financial year leading to delays in taking management action that lead to the budgetary limit being exceeded. | | |
| 4 | 49 | The number of new registrations continues to increase each year as new sectors of the workforce are required to register. The effect of this is registration staff and associated costs will increase although will be partially offset by an increase in registration income. The increase in registration numbers also tends to mean the potential for increased conduct and legal costs<br>**Risk** - There is a risk that the SSSC will not have the capacity to cope with the increased levels of registration required by the Scottish Government each year and therefore will not be able to achieve them. | A registration resource model has been in place for a number of years which informs the budget process. The conduct resource model has recently been reviewed and expanded to include legal. Discussions on the results of the revised conduct model are underway with the Sponsor and will be incorporated into the 2012/13 budget process. | Executive Management Team<br>31 March 2013 |
| 5 | 83 | The SSSC has reviewed and agreed to implement their new organisational structure during 2012/13 to improve the efficiency and effectiveness of the organisation.<br>**Risk** - There is a risk that organisational performance may be affected as staff take to adjust to new roles and responsibilities that may impact on the quality of services delivered. | Through the SSSC's Performance Development Review System all staff have an individual learning and development plan. Managers are using this process to identify and address any areas of training and development that staff require to support them to take on their new roles and to continue to deliver quality services. | All managers<br>Ongoing |