



Scottish Social

Services Council

Annual audit report 2014/15

September 2015

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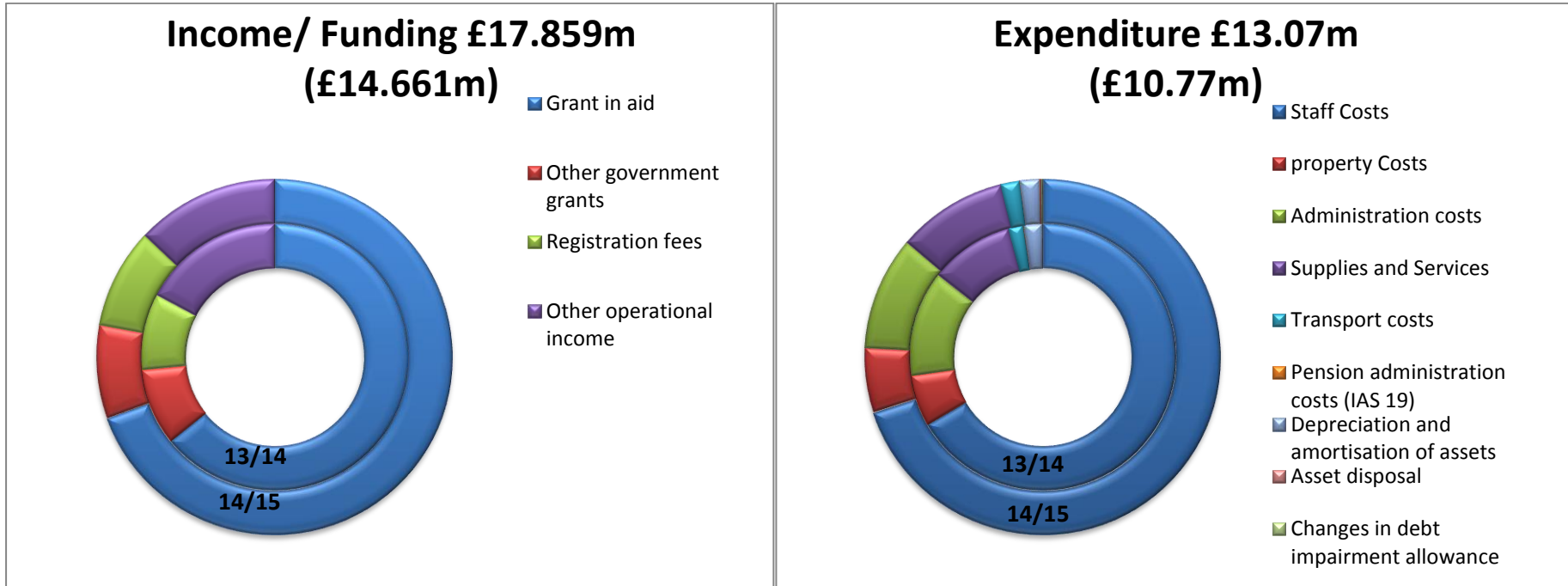
Key Messages

 <p>Audit of financial statements</p>	<ul style="list-style-type: none">• Unqualified independent auditor's report on the 2014/15 financial statements.• Working papers were of a high standard and officers provided excellent support which enabled the audit team to complete on-site fieldwork by the planned target date.• Only presentational and disclosure adjustments required to the financial statements presented for audit.
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none">• The Scottish Social Services Council (SSSC) operated within its resource budget for 2014/15.• The financial position remains stable. A balanced budget of income and expenditure is projected for a 3 year period to 2017 based on continuing Scottish Government funding.• The SSSC faces a challenge to keep operating costs within its budget in the medium to long term.
 <p>Governance and transparency</p>	<ul style="list-style-type: none">• Overall we found that the SSSC had sound governance arrangements• Systems of internal control operated effectively during 2014/15.• The register of interests extends to all SSSC Council members and is renewed annually.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of the SSSC.
2. The management of the SSSC is responsible for:
 - preparing financial statements which give a true and fair view, in accordance with the relevant financial reporting framework
 - ensuring the regularity of transactions, by putting in place systems of internal control
 - maintaining proper accounting records
 - preparing and publishing with their financial statements an annual governance statement and a remuneration report
 - preparing consolidation packs.
3. Our responsibility, as the external auditor of the SSSC, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; that have been prepared by management with the oversight of those charged with governance. This does not relieve management of their responsibility for the preparation of financial statements.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports are summarised at [appendix II](#) and [appendix III](#).
6. [Appendix IV](#) is an action plan setting out our recommendations to address the high level risks we have identified from the audit. We recognise that not all risks can be eliminated or even minimised. What is important is that the SSSC understands its risks and has arrangements in place to manage these risks. The committee should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

2014/15 financial statements



The financial statements show that income and Scottish Government net funding for 2014/15 of £17.859 million is an increase of £3.198 million (21.8%) from 2013/14. Expenditure increased by £2.3 million (21.4%) to £13.07 million in 2014/15.

Audit of the 2014/15 financial statements

Financial Statements

- The financial statements of the SSSC for 2014/15 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.
- We confirm that the financial statements have been properly prepared in accordance with the 2014/15 FReM and the requirements of the Regulation of Care (Scotland) Act 2001.

Regularity

- In all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.

Other prescribed matters

- The remuneration report to be audited has been properly prepared in accordance with the requirements of the Regulation of Care (Scotland) Act 2001.
- The information in the management commentary is consistent with the financial statements.

Audit of the 2014/15 financial statements

Submission of financial statements for audit

9. We received the unaudited financial statements on 26 June 2015 in accordance with the agreed timetable. The working papers were of a high standard and the staff provided good support to the audit team and we completed our fieldwork on 5 August 2015. Next year will present a specific challenge due to the significant changes outlined at paragraph 22.

Overview of the scope of the audit of the financial statements

10. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit Committee on 11 February 2015.
11. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken any non-audit related services. The 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
12. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to

secure appropriate levels of assurance. [Appendix I](#) sets out these significant audit risks and how we addressed each risk in arriving at our opinion on the financial statements.

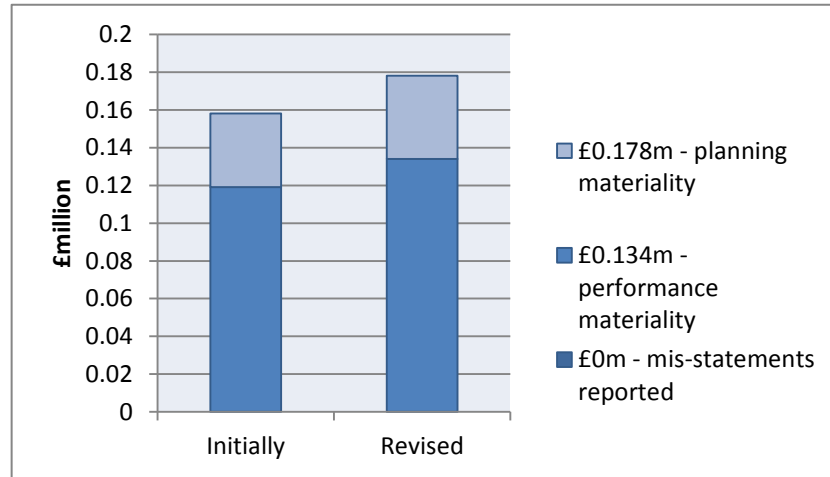
13. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

14. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other qualitative reasons (for example an item contrary to law).
15. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
16. We summarised our approach to materiality in our Annual Audit Plan. Based on the unaudited financial statements, we revised our planning materiality for 2014/15 to £0.178 million (1% of gross expenditure). Performance materiality of £0.134 million is determined to ensure that uncorrected and undetected audit differences do not exceed our planning

Audit of the 2014/15 financial statements

materiality level. We report all misstatements greater than £2,000.



Evaluation of misstatements

17. There were no misstatements identified during the audit which exceeded our misstatement threshold. Therefore, no amendments have been made to the financial statements which impact upon either the net expenditure for the year or the net assets position at 31 March 2015.

Clearance process

18. The issues arising from the financial statements audit were discussed with the Head of Finance and Senior Accountant at a meeting on 6 August 2015.

Significant findings from the audit

19. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit:
 - the auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and disclosures.
 - significant difficulties encountered during the audit.
 - significant matters arising from the audit that were discussed, or subject to correspondence with management.
 - written representations requested by the auditor.
 - other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
20. We recommended a number of changes to the presentation of the management commentary report in the financial statements due to changes in the 2014/15 FReM. The recommended changes have been processed by management and there are no unadjusted misstatements to report.

Refer Action Plan no. 1

Significant findings from the audit in accordance with ISA260

21. There are no issues or audit judgements that, in our view, require to be communicated to you in accordance with ISA260.

Future accounting and auditing developments

Revisions to the Financial Reporting Manual (FReM)

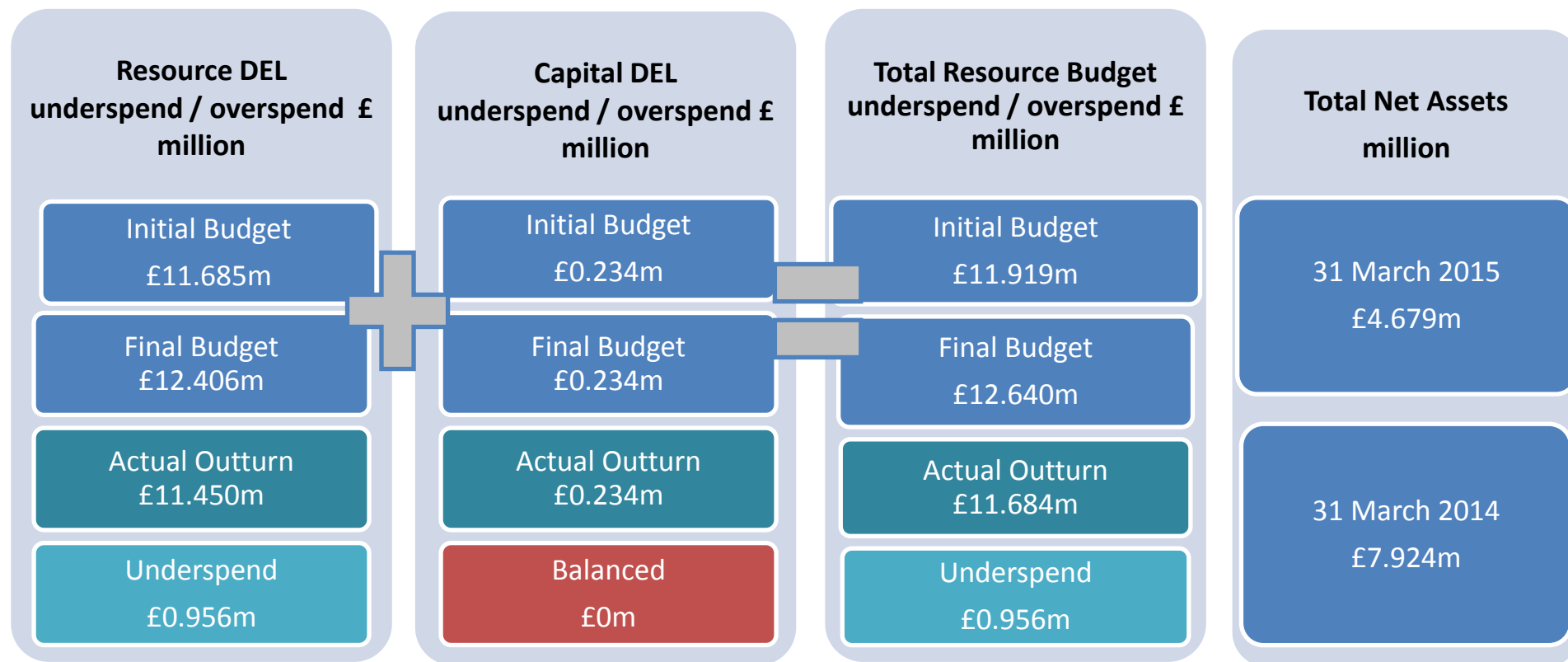
22. The financial statements are prepared in accordance with the Government financial reporting manual (FReM). Two significant revisions will apply from 2015/16:
- Simplification and Streamlining Project – changes to the form and content of the annual report and accounts.
 - Adoption of IFRS13 *Fair value measurement* for the first time – this also includes IAS 16 and IAS 38 adaptations.
23. **Restructuring of the annual report and accounts:** the 2015/16 FReM has been extensively re-written to require the annual report and accounts to include:
- A performance report which will give a fair, balanced and understandable analysis of performance and will include an overview section and a performance analysis section.
 - An accountability report incorporating the following three main sections:
 - corporate governance report consisting of a directors' report, a statement of the Accountable Officer's responsibilities and a governance statement
 - remuneration and staff report which will cover a number of prescribed disclosures including remuneration policy, payments to directors, staff numbers and sickness absence rates

- parliamentary and accountability report which will include information on the regularity of expenditure and the independent auditor's report.

Refer Action Plan no. 2

24. **International Financial Reporting Standards - IFRS13 Fair value measurement:** sets out the requirements for assets to be valued at fair value and is applied in full by the FReM only to assets that are not held for their service potential (i.e. investment properties and assets held for sale). It also applies to operational assets which are surplus to requirements where there are no restrictions on disposal which would prevent access to the market.
25. IFRS 13 does not apply to operational assets which are in use delivering front line services or back office functions, and surplus assets with restrictions on their disposal. These will be valued in accordance with the adaptations to *IAS (International Accounting Standard) 16 property, plant and equipment*.

Financial management and sustainability



26. The main financial objective for the SSSC is to ensure that the financial outturn for the year is within the resource budget allocated by Scottish Ministers.

27. The Scottish Government sets a resource budget for the year for the SSSC which originates from the spending review settlement and is subsequently approved in the Budget Bill.

Financial management and sustainability

During the year, any revisions are approved in the autumn and spring.

28. The SSSC received a total final resource budget of £12.640 million for 2014/15 which was internally split between revenue (£12.406 million) and capital (£0.234 million) as detailed above.
29. Spending on operating costs was within the final budget set, mainly as a result of in-year expenditure monitoring where budget adjustments, slippages and efficiencies have been used to balance within the overall allocation. We have concluded that the SSSC budget setting and monitoring arrangements are satisfactory, and we noted that senior management and the Council received relevant monitoring reports timeously.
30. In line with the Scottish Spending Review the SSSC was set budget targets over the three years 2012/13 to 2014/15. These targets were based on a baseline of grant in aid and equated to cuts of 9%, 2% and 2% over the three years. This meant that as the SSSC set its budgets in line with the financial cuts profile (excluding exceptional items) then it met the efficiencies expectations over the three year period.
31. In 2014/15 the Sponsor reduced the grant in aid available to the SSSC by £0.150 million. The Sponsor also agreed to provide additional grant in aid for 2014/15 to fund the increased resources required to manage the increased Fitness to Practise caseloads and other activity associated with the expansion in the size and scope of the Register.

32. The financial position of SSSC remains stable with the body operating within its available funding (on an accounting and resource basis).

Financial management

33. As auditors we need to consider whether bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
 - the Director of Corporate Services and Head of Finance have sufficient status to be able to deliver good financial management
 - standing financial instructions and standing orders are comprehensive, current and promoted within the body
 - reports monitoring performance against budgets are accurate and provided regularly to budget holders
 - monitoring reports do not just contain financial data but are linked to information about performance
 - members provide a good level of challenge and question budget holders on significant variances.
34. Our review noted that the Director of Corporate Services and Head of Finance have sufficient status to deliver good financial management to the SSSC.
35. Our review of the SSSC's financial regulations concluded that they are comprehensive and current. The financial regulations are available on the website.

Financial management and sustainability

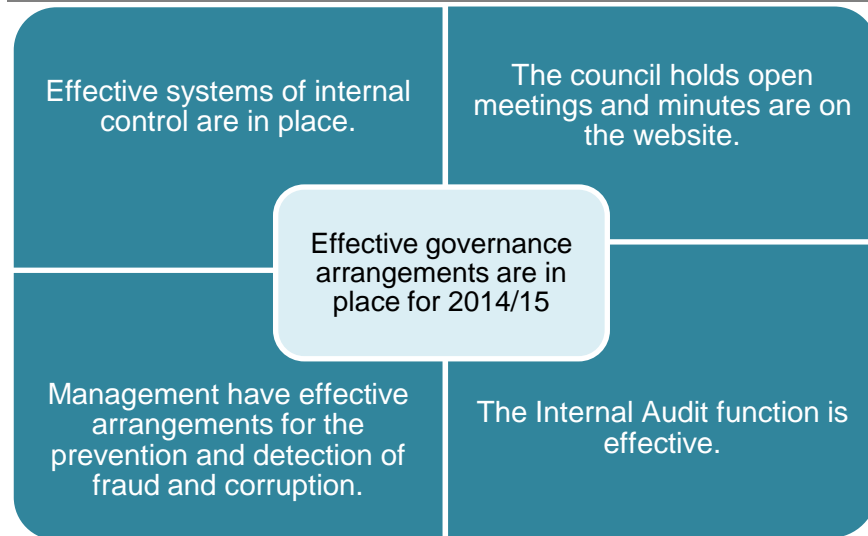
36. Regular reporting on budget monitoring and key performance indicator updates are provided to relevant Council and Resources committee members on a regular basis throughout the year.
37. Based on our accumulated knowledge, our review of Council papers and through our attendance at committees we conclude that the SSSC has strong financial management arrangements in place.

2015/16 and beyond

38. SSSC are undertaking further reviews of their fitness to practise, registration and hearing resource models to ensure they are adequate and appropriate. SSSC have provided resource model forecasts to the Scottish Government for the period 2016/17 to 2018/19 as part of the ongoing dialogue to agree additional funding. However, this is on a year to year basis with no long-term funding solution formally agreed to manage the increased workload. This presents a future challenge for the SSSC.

Refer Action Plan no. 3

Governance and transparency



Corporate governance

39. The Council and Accountable Officer are responsible for establishing arrangements for ensuring the proper conduct of the affairs of the SSSC and for monitoring the adequacy of these arrangements.
40. The SSSC is managed by a Council of non-executive directors and is accountable through the Scottish Ministers to the Scottish Parliament. The Council's Chair and non-executives are appointed by the Scottish Ministers.

41. The Council is supported in its role by the audit committee and resources committee. The committees meet on a regular basis throughout the year to consider relevant matters.
42. The SSSC has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

Transparency

43. The Scottish Government's "On Board" guidance (<http://www.gov.scot/Publications/2015/04/9736/0>), for Council members of public bodies was updated and reissued in April 2015. On Board states that the Council should demonstrate high standards of corporate governance at all times including openness and transparency in decision making. It recommends that the Council should consider:
 - holding an annual open meeting
 - holding Council meetings in public unless there is a good reason not to
 - publishing summary reports and/or minutes of meetings
 - inviting evidence from members of the public in relation to matters of public concern
 - consulting stakeholders and users on a range of issues

Governance and transparency

- making corporate plans and the annual report and accounts widely available.
44. Audit Scotland advocates in transparency of financial reporting within the annual report and accounts including:
- a clear reconciliation between expenditure and the outturn against Scottish Government Resource budgets.
 - identification of, and explanation of, any significant movements in budget during the year.
45. The SSSC makes available a range of information on its website, such as the Strategic Plan 2014-17. While we acknowledge that there are aspects of meetings that are confidential and sensitive in nature, the SSSC's Council meetings are open to the public and minutes are made available on the website. Overall we conclude that the arrangements in this area are soundly based.

Accounting and internal control systems

46. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
47. No material weaknesses in the 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 financial statements.

48. Internal audit is an important element of the SSSC's governance structure. In the interests of an efficient audit approach we also rely on assurances received from the auditor of the Scottish Government on work performed on the Scottish Government central systems that are used by SSSC. This approach ensures we are delivering an efficient co-ordinated audit that avoids unnecessary duplication and expense.
49. The central systems assurance letter provided by the auditor of the Scottish Government provided unqualified audit opinion on the financial services assurance report.
50. As we have raised in previous years, the project to implement Pulse, the SSSC's payroll and human resources information system, continues to have ongoing system development issues. These issues affect the implementation of specific human resources modules which would help to ensure benefits realisation of the new system is achieved.

Refer action plan No. 4

Internal audit

51. Internal audit provides the audit committee and accountable officer with independent assurance on the overall risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its

Governance and transparency

work. To avoid duplication, we place reliance on internal audit work where possible.

52. Our review of internal audit concluded that the internal audit service (provided by Scott Moncrieff) operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. Therefore, we were able to place reliance on the following reviews during 2014/15:
- business continuity planning
 - corporate governance
 - efficiency savings
 - engagement with Scottish Government
 - introduction of sequence system
 - shared services.

ICT audit

53. ICT is a key area of control because it underpins all systems used by the SSSC. As part of our planning process we carried a high level review of ICT covering a number of areas. There is one area of improvement required relating to business continuity management. The SSSC has made good progress in developing their business continuity arrangements and staff training and physical and desktop testing of the plans have now commenced. We plan to review progress with management during 2015/16.

Arrangements for the prevention and detection of fraud

54. We assessed the arrangements for the prevention and detection of fraud during the planning phase of our audit. This involved reviewing the Counter Fraud Strategy, Counter Fraud Policy, Fraud Response Plan and Whistleblowing Policy and Procedures. We conclude that there are effective arrangements for the prevention and detection of fraud.

National Fraud Initiative in Scotland

55. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise led by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify circumstances (matches) that might suggest the existence of fraud or error
56. Auditors are required to assess the arrangements that bodies have put in place to prevent and detect fraud, including how they approach the NFI exercise itself.
57. As part of this year's NFI exercise, the SSSC submitted payroll and creditors data to the Cabinet Office. However, no NFI matches have been received to date for further investigation. As a result, we will monitor the SSSC's progress during 2015/16 in following up NFI matches.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

58. The SSSC has in place a range of activities designed to maintain standards of conduct including Codes of Conduct for officers and members.
59. An area of good practice undertaken by the SSSC relates to Council members completing register of interests forms. This process would highlight where there may be a potential conflict of interest and is updated annually.

60. Based on our review of the evidence we concluded that there are appropriate arrangements in place for the prevention and detection of corruption and we are not aware of any specific issues that we need to record in this report.

Acknowledgements

61. We would like to express our thanks to the staff and members of the SSSC for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.

Appendix I – Significant audit risks

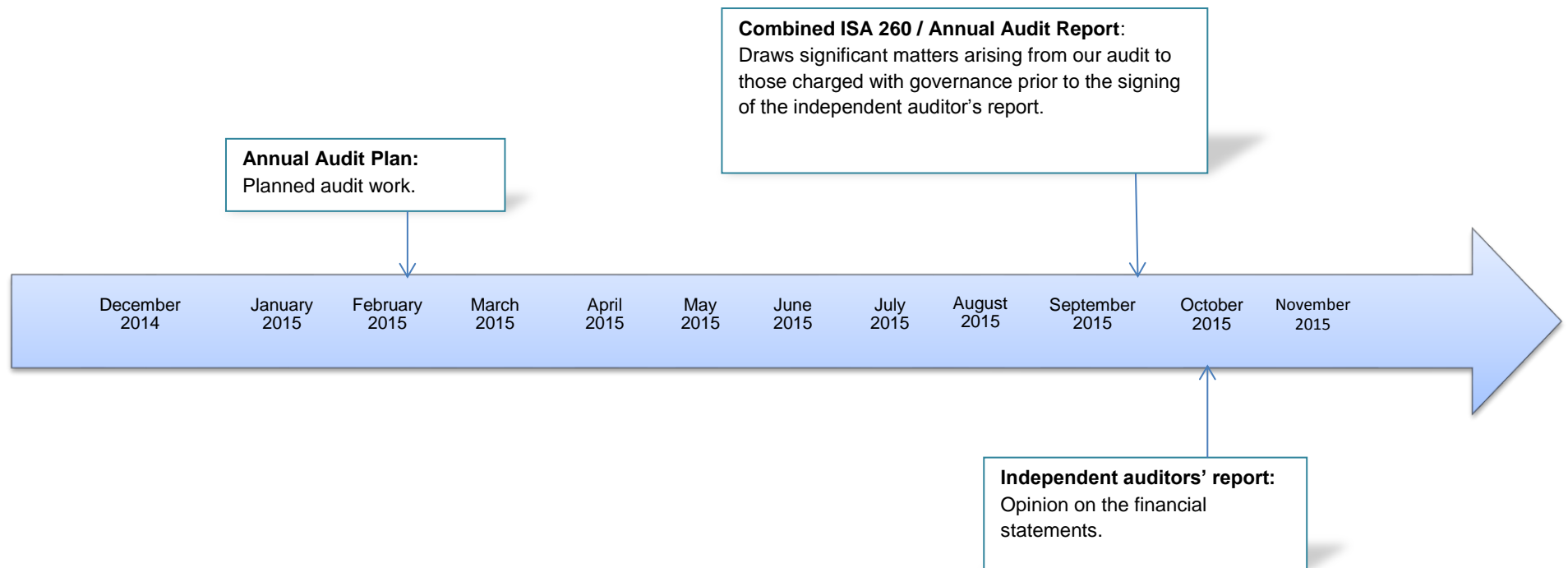
The table below sets out the audit risks, how we addressed each risk and our judgement in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement		
<p>Income</p> <p>The SSSC receives a significant amount of income in addition to Scottish Government funding.</p> <p><i>The extent and complexity of income means that there is an inherent risk that income could be materially misstated.</i></p>	<ul style="list-style-type: none"> Analytical procedures on income streams. Detailed testing of revenue transactions focusing on the areas of greatest risk. 	<p>We undertook detailed testing of income streams and did not identify any evidence of fraudulent activity or significant weaknesses in related controls.</p>
<p>Management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business. 	<p>We undertook detailed testing of journal entries, accruals and prepayments. We also reviewed accounting estimates and transactions for appropriateness.</p> <p>We did not identify any incidents of management override of controls.</p>

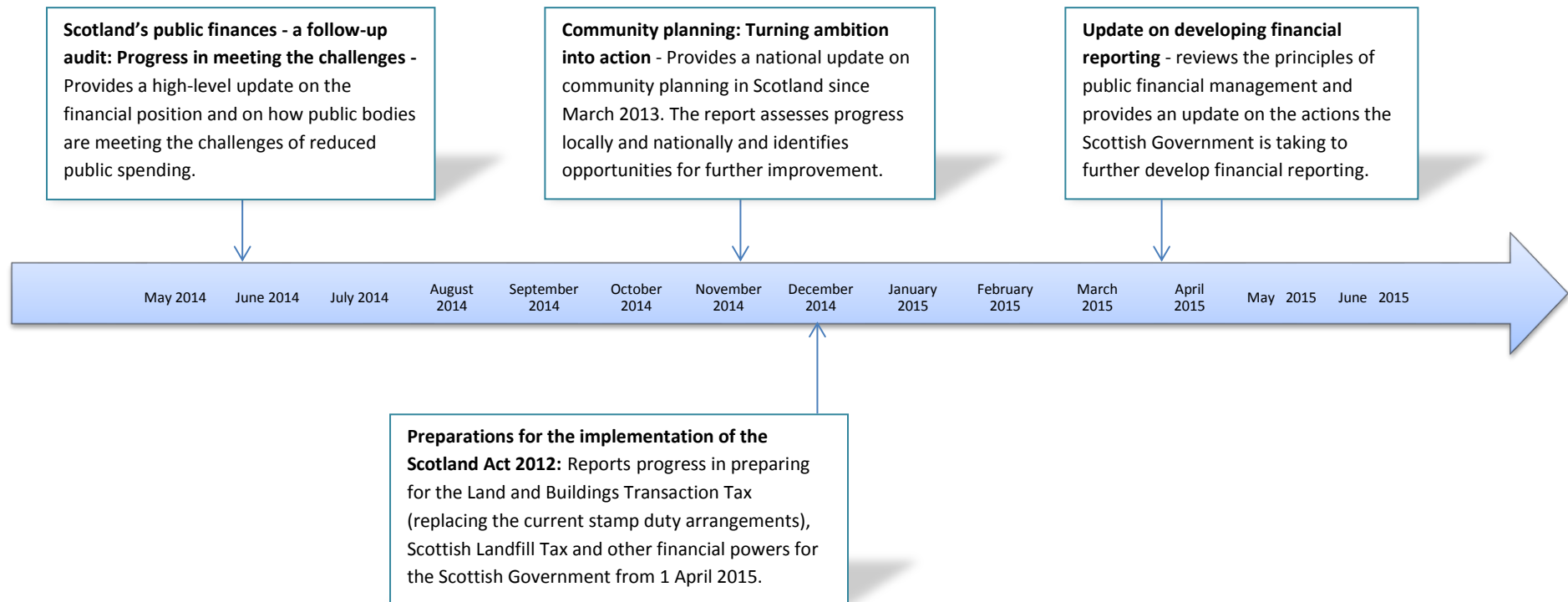
Appendix I – Significant audit risks

Audit Risk	Assurance procedure	Results and conclusions
<p>Change to SPFM</p> <p>The section of the SPFM on 'severance, early retirement and redundancy terms' now requires central government bodies to consult with the Scottish Government before offering or entering into any settlement agreement.</p> <p><i>Failure to obtain the required approval for any such payments could impact on our regularity audit opinion.</i></p>	<ul style="list-style-type: none"> Ensure that the new SPFM requirements are consistent with those set out in the Scottish Government framework document. 	<p>We reviewed relevant supporting documentation for early voluntary severance payments made during the year as part of the 2014/15 financial statements audit. No issues were identified.</p>
<p>Payroll and Human Resources Service - Pulse</p> <p>Although the Pulse system payroll module is operational, there are ongoing system development issues.</p> <p><i>System processes may not be fully implemented resulting in control weaknesses or user requirements not being met or benefits failing to materialise</i></p>	<ul style="list-style-type: none"> Analytical review of payroll streams will be used to confirm completeness and identify any unusual transactions or variations. 	<p>We undertook a review of payroll streams during the year and did not identify any evidence of significant weaknesses in related controls.</p>

Appendix II – Summary of local audit reports 2014/15



Appendix III – Summary of national reports 2014/15



Appendix IV – Action plan

Para/page	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
Financial audit Issues				
1 20/7	<p>Issue: We identified formatting and consistency issues during our review of the management commentary report in the annual report and accounts due to changes with the 2014/15 FReM.</p> <p>Risk: Ongoing issues with the management commentary provided for audit may require additional resource and effort from both audit and SSSC staff.</p> <p>Recommendation: Management should ensure that adequate arrangements are in place to ensure that the draft Annual Report and Accounts submitted for audit are complete, correctly formatted and proof read.</p>	<p>We will ensure that all staff are clear that when writing and proof-reading the management commentary that the priority is compliance with the FReM. Directors will sign off sections to state the information for their section is accurate. And we will ensure they understand that no changes can be made to headings, sections or layout.</p> <p>We would ask that the Auditors refer to our style guide when reading the annual report. A number of "proofreading" issues identified by the auditor were style issues.</p>	Head of Strategic Performance and Engagement	30 June 2016

Appendix IV – Action plan

Para/page	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
2 23/8	<p>Issue: The 2015/16 FReM contains changes that will require action by officers to ensure they are fully reflected in the 2015/16 unaudited financial statements.</p> <p>Risk: These may be ongoing issues with the financial statements provided for audit and they may require additional resource and effort from both audit and SSSC staff to ensure compliance with the FReM.</p> <p>Recommendation: Officers should review the changes, discuss key areas with the audit team and put arrangements in place to ensure full compliance with the FReM.</p>	As part of our audit planning process a meeting has been arranged with Audit Scotland to identify the action prior to drafting the 2015/16 annual report and accounts.	Head of Finance	30 June 2016

Appendix IV – Action plan

Para/page	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
Wider audit issues				
3 38/11	<p>Issue: A funding solution has been agreed for 2015/16 which is consistent with previous years. However, a longer term funding/ efficiencies solution is required to manage the identified increased fitness to practise and registration workload.</p> <p>Risk: Without a longer term solution, the SSSC may not be able to deliver the key objectives and outcomes agreed within the strategic plan.</p> <p>Recommendation: The SSSC should clarify future funding arrangements and liaise with the Scottish Government sponsor department to ensure a longer term funding solution is agreed for financial year 2016/17 and beyond.</p>	We have prepared a three year budget for 2016/17 to 2018/19 and are working closely with Scottish Government colleagues in order to secure a longer term funding solution.	Chief Executive	31 March 2016

Appendix IV – Action plan

Para/page	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
4 50/13	<p>Issue: The project to implement the Pulse system has ongoing system development issues affecting the implementation of specific human resources modules.</p> <p>Risk: There is a risk that the users' requirements are not met and benefits are not materialised.</p> <p>Recommendation: Management should keep the Council and Audit Scotland up to date on progress to deliver the outstanding system modules.</p>	<p>Corporate Services Management Team (CSMT) will continue to oversee the implementation of the outstanding developments and ensure that the benefits of Pulse are fully realised. Updates were provided to Audit Committee on 11 June 2014, 11 February 2015 and 10 June 2015. In addition all committee reports were made available to Audit Scotland and any other relevant information was provided during their fieldwork.</p>	Head of Finance	31 March 2016