

Scottish Social Services Council

External Audit Annual Report to the
Accountable Officer and the Auditor General
for Scotland

2016/17 Financial Year

31 October 2017



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Summary of our audit plan:

Materiality has been updated based on the unaudited 2016/17 financial statements to £199,000 (1% of gross 2016/17 expenditure).

Performance materiality is £129,000 and we have reported to management everything identified over £1,990 (1% of materiality).

Significant audit risks were: management override of controls; risk of fraud in revenue recognition. Other audit risks were: completeness of operating expenditure and completeness of employee remuneration.

We have applied the smaller body exemption as set out in the Code of Audit Practice and have therefore focused on going concern and financial sustainability.

We can confirm we are independent of Scottish Social Services Council (referred to as the SSSC) and our objectivity is not compromised in accordance with International standards on Auditing (UK & Ireland) and APB ethical standards for Auditors. No non-audit services have been provided to Scottish Social Services Council in 2016/17. Our audit fee as set out in the audit plan remains unchanged at £18,890.

Key Messages

We have issued an unqualified opinion on:

- True and fair view of the financial statements
- Regularity
- Other prescribed matters.

This report is a summary of our findings from our external audit work for the financial year ended March 2017. Our work has been undertaken in accordance with International Standards on Auditing (UK & Ireland) and the Code of Audit Practice (2016).

Our report is addressed to the Accountable Officer (in their role as Chief Executive and therefore charged with governance) and the Auditor General for Scotland. This report will be published on the Audit Scotland website at: www.audit-scotland.gov.uk

This report has been discussed and agreed with management, and presented to the Audit Committee on 27 September 2017 alongside the final audited annual report and accounts. The annual accounts were discussed at the Board meeting on 31 October 2017 and then signed by the Accountable Officer.

We would like to thank management and staff for their co-operation and assistance throughout our audit work.

Our work included:

- An audit of the 2016/17 Annual Report and Accounts
- A review of the Performance Report and Accountability Report, including the Governance Statement and Remuneration Report
- Completion of an EU Funding data return – confirming that SSSC does not receive any EU funding
- Completion of the Role of Boards return submitted to Audit Scotland to inform a future performance study
- Completion of the National Fraud Initiative (NFI) return and review of data matching progress

Overall an efficient audit process was achieved, with a good draft annual report and accounts received in line with our agreed timetable. This year the finance team created an electronic version of the annual accounts (numbers) which linked directly to the trial balance and supporting audit evidence. This made the accounts process straightforward, with all numbers supported by audit working papers.

We set out in our audit plan that SSSC fell under the smaller body classification in the Code of Audit Practice and therefore the wider scope audit requirements do not apply. This has not changed.

However, as set out in the Code of Audit Practice we have commented on SSSC's going concern arrangements and future financial sustainability; as well as certain aspects of SSSC's organisational arrangements.

For and on behalf of Grant Thornton UK LLP

31 October 2017



The Financial Statements Audit



Our audit plan was presented to the Audit Committee on 27 April 2017. We have not altered our planned audit approach as set out in the plan. However, we have updated our final materiality figures based on the unaudited 2016/17 annual report and accounts. Our planned materiality was £191,940 which we subsequently updated to £199,000 taking 1% of unaudited gross expenditure. Our audit complete subject to receipt of a letter of representation from the Accountable Officer which is provided when the accounts are signed and our final checks post Audit Committee approval.

Our audit work commenced on-site on 3 July 2017 following a planning visit we completed in December 2016. We received the draft annual report and accounts within the agreed audit timetable. This year management produced an electronic set of the accounts which are fully linked to the trial balance and then subsequent invoices/supporting audit evidence. From an audit perspective this was very easy to follow and reduced our audit queries. This is a template and approach which could be shared with Care Inspectorate, given the shared finance team and potentially other similar sized central government organisations.

Appendix 1 shows there are no uncorrected or corrected adjustments which have been made in the final accounts.

We recommended one minor disclosure change, which management has made to ensure compliance with the FReM and relevant accounting standards. Other adjustments were small typing changes.

We have not found any potential audit adjustments above £1,990 (the amount which we consider to be trivial), which we need to bring to your attention.

Internal Audit

As set out in our plan we have not placed formal reliance on the work of Internal Audit during 2016/17. Internal Audit is provided to the SSSC by an outsourced provider, Scott Moncrieff. The overall input by internal audit is focused on key areas of control and is risk based. The plan is reflective of the risks facing the SSSC and subject to detailed discussion at the Audit Committee before approval.

We have reviewed the internal audit plan, and the internal reports completed during the year. These reports are considered by the SSSC Audit Committee throughout the year and agreed actions formally followed up.

Internal Audit's annual opinion for 2016/17 was *"In our opinion SSSC has a framework of controls in place that provides reasonable assurance regarding the organisations governance framework, effective and efficient achievement of objectives and the management of key risks, and proper arrangements to promote value for money and deliver best value"*

The findings of internal audit do not disagree with our knowledge and understanding of the SSSC as an organisation and its risk profile. Internal Audit provide assurances to management and the SSSC Audit Committee that their services are Public Sector Internal Audit Standards (PSIAS).

Internal Control Environment

During the year we have sought to understand the Scottish Social Services Council's overall control environment as related to the Annual Report and Accounts. In particular we have:

- Considered procedures and controls around related parties, journal entries and other key entity level controls
- Performed walkthrough procedures on key controls and the identified risk areas as outline on pages 6-7

No material weaknesses in the accounting and internal control systems were identified during the audit which could have an adverse impact on the SSSC's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

In accordance with ISA 260, we are required to report to those charged with governance the main issues arising from our audit of the Annual Report and Accounts. This report discharges our obligations under ISA 260.

Our identified audit risks

Audit plan identified risk and work completed	Our conclusion
<p>Management override of controls</p> <p>Under ISA (UK&I) 240 there is presumed risk that the risk of management over-ride of controls is present in all entities (fraud risk).</p> <p>Work undertaken:</p> <p>Completed a walkthrough of the controls and procedures in place around journal entries.</p> <p>Reviewed the key accounting estimates, judgements and decisions made by management; in particular, the registration fee accrual, depreciation, and bad debt provision.</p> <p>Tested journal entries with a focus on large and/or unusual values; posting sources; unexpected and unusual timing of journals, as identified using our IDEA data analysis software.</p> <p>Reviewed unusual and/or significant transactions.</p>	<p>Key accounting estimates/judgements:</p> <p>Given the nature of the SSSC's activities, the key accounting estimate is the bad debt provision. We have reviewed debt outstanding at the year end for recoverability. We are satisfied that the bad debt provision is appropriate, and debt is recoverable.</p> <p>Journal Entry Testing:</p> <p>We made inquiries of those members of staff who can post and authorise journals related to inappropriate or unusual activity with no concerns noted. We confirmed completeness of journals during the year, and targeted large and/or unusual journals. We noted no issues from our testing.</p> <p>The SSSC use the Scottish Government accounting system (SEAS). We have obtained assurance over these arrangements through the letter provided by Audit Scotland over the SEAS system, in their role as external auditor for the Scottish Government.</p> <p>Through our substantive audit testing, we did not identify any significant or unusual transactions that are out with the normal course of business for the SSSC.</p>
<p>The revenue cycle includes fraudulent transactions</p> <p>Under ISA 240 (UK&I) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. Having considered the factors set out in ISA (UK&I) 240 and the nature of the revenue streams at the Scottish Social Services Council, we determined the risk arising from revenue recognition is relevant and applicable to the SSSC.</p> <p>Work undertaken:</p> <p>We completed a walkthrough of the controls and procedures in place around revenue.</p> <p>We reconciled revenue to gain assurance over the completeness and accuracy of income.</p> <p>We substantively tested a sample of registration income, and other income.</p> <p>We tested cut-off of revenue.</p> <p>We reviewed the award letters for grant income, and substantively tested associated grant expenditure in line with the conditions of the grant.</p>	<p>Our walkthroughs did not identify any significant control deficiencies within the revenue processes.</p> <p>Our testing did not identify any issues over the completeness and accuracy of income.</p> <p>Our testing of cut-off confirmed income transactions were treated in the correct period.</p> <p>Our testing of grant income and expenditure confirmed that spending is in line with the conditions of the grant as set out in the award letters.</p>

Audit plan identified risk and work completed	Our conclusion
<p>Completeness of employee remuneration</p> <p>Employee costs are a large source of expenditure. There is a large number of transactions processed throughout the year and the Scottish Social Services Council rely on numerous controls to ensure that employee costs are recorded correctly in the financial statements.</p> <p>Work undertaken:</p> <p>Completed a walkthrough of the controls and procedures in place around the payment of staff.</p> <p>Analytically reviewed payroll expenses in comparison to expectations.</p> <p>Substantively tested payroll costs.</p> <p>Reviewed the relevant disclosures relating to staff costs within the remuneration report.</p> <p>Reviewed the control assurance report produced by Audit Scotland.</p>	<p>We have assessed the completeness of employee remuneration and have gained sufficient assurance over the payroll process to conclude that there are no material misstatements.</p> <p>We have reviewed the letter produced by Audit Scotland over the Scottish Government systems which the SSSC use and have not identified any matters that impacted on our approach.</p> <p>Through our testing of employees we did not identify any issues. Similarly, our analytical review of employee remuneration including overall staff costs highlighted no issues of concern.</p>
<p>Completeness of operating expenditure</p> <p>Operating expenses are understated or not recorded in the right period. This risk also relates to Practice Note 10 (revised) in respect of public sector entities which outlines that auditors should also consider the risk that misstatement may occur by the manipulation of expenditure recognition (Fraud risk).</p> <p>Work undertaken:</p> <p>Completed a walkthrough of the controls and procedures in place around purchase ordering, procurement and general payment and recording of expenditure.</p> <p>Gained comfort around the regularity of expenditure and the application of public funds in accordance with the FReM and various legal acts as set out in the Scottish Social Services Council's direction from Ministers.</p> <p>We substantively tested a sample of operating expenditure, and gained comfort around the regularity of expenditure transactions.</p> <p>We performed cut-off testing on pre-year and post-year expenditure transactions.</p>	<p>We did not identify any incorrect recording or classification of operating expenditure in the annual accounts based on our substantive audit testing.</p> <p>Our testing of cut-off identified transactions sampled were treated in the correct period.</p> <p>Our testing confirmed expenditure recorded in the annual accounts was incurred in accordance with the purpose and nature of the SSSC as an organisation and in accordance with relevant laws and regulations.</p>

The narrative elements of your annual report and accounts

In accordance with our responsibilities we have reviewed your narrative aspects of the Annual Report and Accounts. We have considered the consistency of this narrative with our understanding of the Scottish Social Services Council and the FReM requirements and the financial information set out in the accounts and have set out our observations below.

Annual Report

- Overall the Annual Report was fair, balanced and understandable. Following our observations the Performance report section was updated to include an overview of the SSSC's operational performance during the year.
- The report includes a financial analysis of Scottish Social Services Council's in-year performance.
- In line with best practice performance reports it includes an upfront statement by the Accountable Officer.

Governance Statement

- All key required elements within the FReM are included within the Governance Statement.
- Directors provide certificates of assurance to the Chief Executive/ Accountable Officer. This provides her with overall assurance to support the governance statement disclosures. This approach is in line with best practice and provides a clear paper trail behind the annual governance process.
- The risk and control framework is effectively summarised and covers the key risk areas. The Scottish Social Services Council has a sufficiently detailed risk register used to underpin its wider governance arrangements.

Remuneration report

- The remuneration report has been completed in line with guidelines and the FReM
- We have also audited the financial information included in the remuneration report (marked up as audited information). We have no matters we wish to bring to your attention.



Judgements and estimates

We consider other aspects of your annual report and accounts, in particular key areas of judgement. We have summarised below our observations in these key areas:

Accounting Policies

- Accounting policies are in accordance with the Financial Reporting Manual (FRM) and we consider these to be appropriate to the Scottish Social Services Council and have been applied consistently in practice.

Accounting estimates and judgements

- We have identified and gained comfort over the following key estimates and judgements:
 - The bad debt provision is appropriate, and we are satisfied that debt is recoverable.

Going Concern

- Scottish Social Services Council has an agreed budget for 2017/18 and continues to discuss future funding with the Scottish Government. Given the nature of the services delivered by the Scottish Social Services Council, which are set out in various legislation, we have no reason to doubt that the Scottish Social Services Council won't continue to operate beyond 12 months of the date of our opinion.

Timing of transactions and period in which they are recorded (Cut off assertion)

- Through our substantive audit testing we did not identify any concerns over timing of transactions or the period in which they were recorded.

Impact on the financial statements of any uncertainties

- No uncertainties have been identified which have an impact on the final annual report and accounts.

Wider commentary on SSSC arrangements



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Future financial sustainability and medium to longer term financial forecasting

The main financial objectives of the SSSC are to continue to meet its operational requirements, and minimise the risk of the SSSC being unable to meet its strategic objectives as a result of insufficient resourcing.

The SSSC's funding is derived from self-generated revenue from registration fees, and grant-in-aid funding from the Scottish Government. In 2016/17, SSSC had total comprehensive net expenditure before government funding of £19.405million and total grant funding of £13.488million. The SSSC achieved a net surplus on funding of £0.331million against a budgeted deficit of £0.432m, showing an underspend of £0.734million.

The Statement of Financial Position shows a net liability position of £9.027million, the majority of which is attributable to the significant increase in the pensions liability. A significant proportion of the SSSC's expenditure in 2016/17 relates to staff costs (£10.724m) and, similar to other public sector entities, the pension liability is a material figure. However, it is not expected that the Scottish Government will withdraw support for the pension liability.

Between 2017-2020, registration numbers are expected to rise, which will put additional pressure on the SSSC's resources and workforce. Given a significant proportion of the cost base is staff costs, there is little room for efficiency savings to be made, particularly as staffing needs to increase in order to maintain capacity to provide services. Significant budget is devoted to disbursements which the SSSC cannot control.

In addition, a pay rise of 1% has been budgeted for 2017/18. SSSC has performed workforce planning and recognises that the current growth levels will not be sustainable without either a fee increase or a significant increase in grant-in-aid funding from the Scottish Government. Effective from 1 September, the SSSC's fees have increased

Grant-in-aid funding represents 78% of total funding. Whilst this provides some certainty over annual financial settlements, there will be increasing budgetary pressure for the SSSC as the number registrations grows over the coming financial years.

The SSSC has identified a requirement for additional office space, resulting from the growth in registrations. Investment in digital services is also required in the medium-term, which will be difficult to fund through current funding levels.

The Scottish Social Services Council undertakes medium-term financial forecasting, up to 2018/19. For 2017/18, total planned operating costs are £20.583m, with revenue of £4.712m, showing net comprehensive expenditure before government funding of £15.871m. The budget allocation from the Scottish Government has been set at £16.7m for 2017/18.

Strategic direction, capacity and capability

The Scottish Social Services Council has close working relationships with OSCR and the Care Inspectorate, which helps to achieve efficiency savings through a shared finance function.

Fraud; corruption and irregularity

SSSC has in place standing financial instructions; scheme of delegation and appropriate policies in respect of fraud, corruption and irregularity. During the year the SSSC identified and investigated two potential frauds both below £5,000 and these were notified to the Audit Committee.

We have not identified any suspected or actual instances of fraud as a result of our audit procedures.

Capital Planning

The SSSC's 2017/18 budget includes increased capital expenditure due to the requirement to tender for a new provider for the Sequence system as the current contract expires in September 2017. The SSSC does not receive any funding specifically for capital expenditure. Therefore capital spend is funded from Grant-in-aid intended for revenue purposes. The budget allocation from the Scottish Government has been set at £16.7m for 2017/18, of which IT costs related to Sequence are estimated as £0.750million.

Risk management

The SSSC has a well developed risk management framework. The risk register is sufficiently detailed, and linked to the strategic outcomes that form the basis of the SSSC's operations. Risks are routinely discussed and reviewed at the Audit Committee and Council meetings.

Governance Arrangements

Council meetings are held in public on a quarterly basis, and Council meeting minutes and papers are published on the SSSC's website. A Council members model Code of Conduct is in place, published on the SSSC's website, supported by Council member induction and training. On an annual basis a report is prepared for the Resources Committee setting out performance including an assessment of how the SSSC has achieved best value during the year.

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Audit adjustments

Over the course of the audit, we identified no misstatements and therefore we have no corrected or uncorrected misstatements to disclose.

Uncorrected misstatements

	£000	£000	£000
None	-	-	-

Corrected misstatements

	£000	£000	£000
None	-	-	-

Disclosure misstatements

In accordance with auditing standards we are required to highlight significant disclosure misstatements to allow audit committees to evaluate the impact of these matters on the financial statements. During the course of our audit, we identified one disclosure amendment, which management have updated in the final version of the accounts.

Adjustment Type	Value £000	Account balance	Impact on the financial statements
Disclosure		Performance Report	The overview and analysis sections have not been separately prepared as per the FReM. Following an audit recommendation, a performance summary setting out SSSC's strategic and operational performance has been added (See Action Point 2).



Action Plan for 2016/17

During the course of our 2016/17 audit work we have identified the following actions for management:

	Area	Issue & Risk	Priority	Recommendation and management response
1	Year end accounts timetable	<p>We undertook the majority of our external audit work over the first three weeks of July, in line with the timetable followed by your previous external auditors. The Accounts are not recommended for approval by until October so there is either scope to move the audit process to later on, or for the Accountable Officer to sign the accounts earlier. This would be a decision for Management and the Audit Committee to consider.</p> <p>Risk: A subsequent event happens post audit and before signing which could require substantial changes the accounts. The previous year accounts are still being considered 6 months into the new financial year, and resources directed to audit could be directed to future year budget setting</p>	Low	<p>Management and the Audit Committee should consider the audit timetable, within the context of when the internal review processes happen and before the Accountable Officer signs the accounts.</p> <p>Responsible owner: Head of Shared Services Timetable for implementation: Dependent on Audit Committee view</p>
2	Performance Report	<p>The performance analysis contains a lengthy narrative around performance, which are difficult to interpret and understand. Including a snapshot of performance and key statistics/performance outcomes during the year would provide the users of the accounts with an overview of performance and enhance understandability.</p> <p>Risk: The overall readability and understandability of the financial statements is diminished, as it is difficult to interpret performance against targets and strategic outcomes.</p>	Medium	<p>Management should review the performance overview and analysis, and consider the use of illustrative diagrams and key statistics to demonstrate the SSSC's performance against strategic outcomes. The inclusion of "snapshot" statistics and key performance measures will enhance the overall readability of the financial statements and allow readers to gain an overview of performance. In addition, this will allow management to reconsider the order of the narrative in line with the FReM.</p> <p>Responsible owner: Director of Strategic Performance and Engagement Timetable for implementation: 31 March 2018</p>

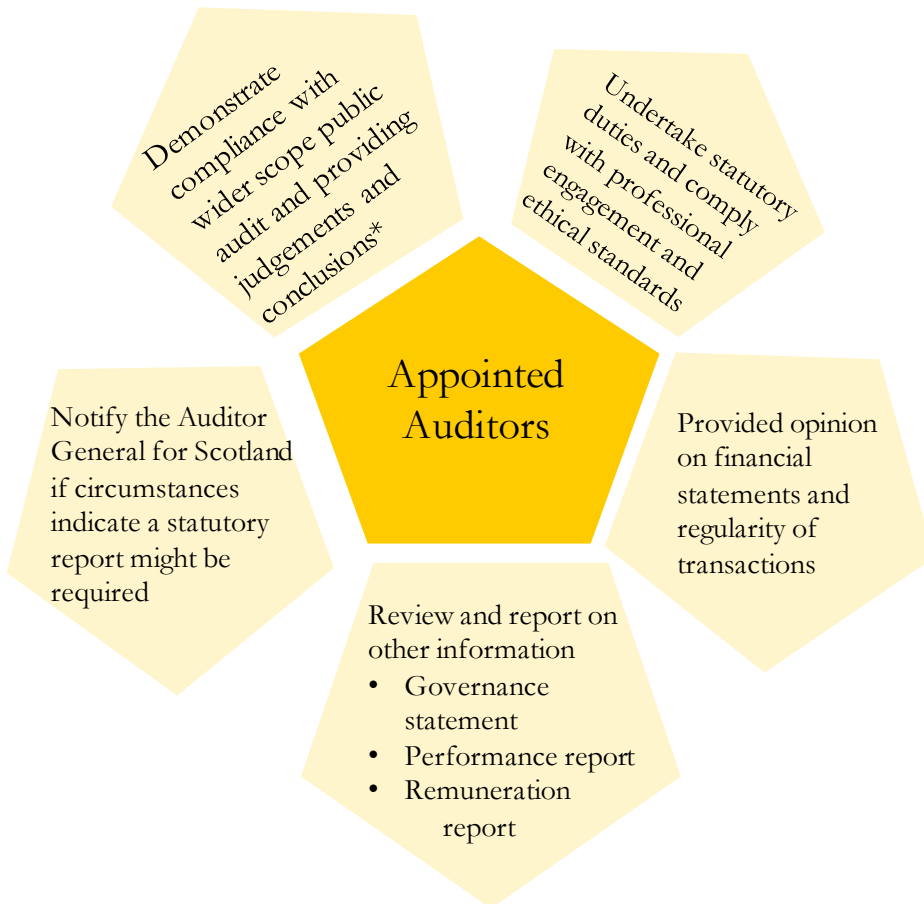
Follow up on prior year recommendation

We have undertaken a follow up of outstanding recommendation from 2015/16 raised by the previous external auditors, Audit Scotland. The results of our work are outlined below:

Prior year finding	Action in 2016/17	
<p>Issue: As reported in previous years, a longer term funding and efficiencies solution is required to manage the identified increased fitness to practise and registration workload.</p> <p>Risk: Without a longer term solution, the Scottish Social Services Council 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>	<p>The SSSC has developed a draft financial strategy which was considered by the Resources Committee on 7 June 2017. The SSSC will continue to provide three year budgets to the Scottish Government Sponsor Team to facilitate the on-going dialogue about the long-term funding position.</p>	<p>Partially implemented. We will follow up progress during 2017/18 and review this strategy against recommended practices.</p>

Reminder of Responsibilities and audit fees

The Code of Audit Practice sets out responsibilities of the audited body (pages 10, 11 and 12) across: Corporate governance; financial statements and related reports; standards of conduct for prevention and detection of fraud and error; financial position; and value for money (as described in the Scottish Public Finance Manual). As appointed auditors our responsibilities are set out on page 13 of the Code and are summarised below.



An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks are only those that have come to our attention during our normal audit work in accordance with ISAs and the Code and may not be all that exist.

Communication of the matters arising from our audit work does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

** Our audit of the SSSC was undertaken under the smaller body exemption in the Code of Audit Practice. However, we have still considered the performance and accountability reports in the annual report and accounts; considered going concern and financial sustainability and included relevant commentary in this report to support the SSSC's arrangements going forward.*





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