

Scottish Social Services Council

Report on the 2005/06 Audit

 AUDIT SCOTLAND

October 2006



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Summary

Introduction

1. In 2005/06 we audited the Scottish Social Services Council's (SSSC) financial statements and we looked at aspects of its governance, in the context of the key business risks facing the organisation. This report sets out our key findings.

Financial Statements

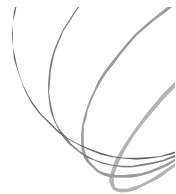
2. We have given an unqualified audit opinion on the financial statements of the SSSC for 2005/06, including the regularity of transactions. We also concur with the disclosures made in the Statement on Internal Control.
3. The SSSC has reported a surplus for the year of £495,000. This surplus has been retained and apportioned to specific reserves, with £375,000 being allocated to costs associated with the On-line Social Care Register (OSCAR) in 2006/07 and £120,000 being set aside for future costs associated with potential legal claims.

Corporate Governance

4. The SSSC approved the formation of a remuneration committee at its Council, Meeting on 14 March 2006. We will monitor the effectiveness of this new committee in the coming financial year.
5. The SSSC has yet to formalise its risk management strategy, although a range of risk management policies are in place. Risk management is an important aspect of corporate governance and we will continue to monitor the SSSC's progress in developing its strategy.
6. In March 2006 the SSSC approved the implementation of a Communications Strategy for 2006/07. The communications strategy is an important device in ensuring that the target audience of the SSSC is being engaged and is being made aware of relevant developments.

Looking Forward

7. The SSSC faces a number of challenges in 2006/07 and beyond, including:
 - The Care Commission are carrying out a review of senior management. This will affect the SSSC as consideration is being given to merging the Director of Finance and Director of Human Resources posts into one Corporate Director post. The Care Commission's Director of Finance and Director of Human Resources currently supply professional services to the SSSC;



- A review is to be undertaken of the Codes of Practice which set out the standards of conduct and practice expected of social service workers and their employees;
 - Consultation will take place on the Post Registration Training and Learning requirements for social care workers in phase two of registration which may lead to training being ring fenced for specific areas; and
 - Recruitment and training is required for members of the Conduct Committee to ensure fairness and transparency in all conduct hearings.
8. We will review these areas and the arrangements put in place by management to address them during the 2006/07 audit.

Audit Scotland
October 2006



Introduction

9. This report summarises the findings from our 2005/06 audit of the Scottish Social Services Council (SSSC). The scope of the audit was set out in our Audit Risk Analysis and Plan, which was presented to the Audit Committee on 14 March 2006. This plan set out our views on the key business risks facing the SSSC and outlined the work we planned to carry out on financial statements and governance.
10. This is our main report for the audit of the SSSC relating to 2005/06. Appendix A of this report sets out the key risks highlighted in this report and the action planned by management to address them.
11. This is the fourth year of a four year audit appointment. As a result of a 5 yearly audit appointment review Audit Scotland have been re-appointed as the external auditors of the SSSC for the next 5 years. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the SSSC during the course of our audit work.
12. This report will be submitted to the Auditor General for Scotland and will be published on our website, www.audit-scotland.gov.uk.



Organisational Risks

13. In our audit plan, we identified three main areas of risk for the SSSC. We also described longer term planning issues which will impact on the SSSC and our audit in the future. In this section, we describe the risks and our views on their current status. We also comment on longer term planning issues.

Governance

14. In our plan we highlighted the following priority and risk areas relating to Corporate Governance within the SSSC:
- the introduction of the Management Information system (MIS) provided the Council with the challenge of ensuring the system delivered the required information, whilst maintaining current information flows; and
 - the accounting implications of the introduction of the Financial Reporting Manual (FReM).

Management Information System

15. The Management Information System (MIS) has undergone further development in 2005/06. However, there is still on-going development work being undertaken on the system. The SSSC expect that a review of this will be undertaken during 2006/07 once a new Head of Workforce Development and Education is appointed.

Implementation of the revised reporting requirements of the FReM

16. In 2005/06 the Financial Reporting Manual (FReM) was introduced to provide guidance for all public sector bodies on the format and content of the annual report and accounts. We reviewed the annual report and accounts of the SSSC to ensure that they have been produced in line with the FReM requirements and can confirm that the FReM requirements have been implemented.



Financial Statements

Our Responsibilities

17. We audit the financial statements and give an opinion on:
 - whether they give a true and fair view of the financial position of our client and its expenditure and income for the period in question;
 - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements; and
 - the regularity of the expenditure and receipts.
18. We also review the Statement on Internal Control by:
 - considering the adequacy of the process put in place by the Chief Executive as Accountable Officer to obtain assurances on the overall system of internal control; and
 - assessing whether disclosures in the statement are consistent with our knowledge of the organisation.

Overall Conclusion

19. We have given an unqualified opinion on the financial statements of the SSSC for 2005/06.

The SSSC's Financial Position

20. The SSSC is a non-departmental public body sponsored by the Scottish Executive Social Work Services Policy Division which is part of the Scottish Executive Education Department. The SSSC's income and expenditure account shows total income of £10.827 million and operating expenditure of £10.408 million resulting in an operating surplus before interest for the year of £0.419 million. This surplus has been transferred to specific reserves.
21. The major element of income was grant in aid and grant funding from the Scottish Executive (£6.894 million). Other government grants accounted for £3.139 million. The largest elements of expenditure were staff costs of £2.712 million, bursaries totalling £2.21 million and operating expenditure of £1.963 million.



The Issues Arising from the Audit

22. We reported the following main issues to the Audit Committee on 24 October 2006:

- **Risk Management:** The Council should formally agree a Risk Management strategy for the SSSC. As we noted last year, the SSSC has yet to formalise its risk management strategy, although a range of risk management policies are in place. Risk management is an important aspect of corporate governance and a formalised strategy, approved by the Council, is required.

Resolution: The Risk Management strategy is to be approved at the next Council meeting.

- **Payroll:** We noted that the recommendations contained in the 2004/05 annual report in relation to evidencing payroll reconciliations and exception reports have not been fully implemented in 2005/06. In addition, the necessary authorisation controls relating to starters and leavers forms have not been adhered to. From our audit sample we found that there were three leavers' forms that were not on file and could not be located by payroll staff. As payroll accounts for the major element of expenditure within the SSSC it is essential that appropriate controls are in place to manage the system.

Resolution: The SSSC Accountant will work with the payroll department to ensure reconciliations are completed appropriately and that exception reports will be evidenced as being checked and reviewed.

- **Payroll:** There is no standard document in place to record amendments to payroll standing data. It is essential that processes are in place to record such amendments in a uniform and systematic manner. A standard amendment form should be introduced and all amendments made to payroll standing data should be recorded appropriately and held on individual employee files.

Resolution: A standard amendment form will be used with all such amendments being held on employee files.

- **Sponsor Department:** In our 2004/05 annual report we noted that the SSSC had a good working relationship with the sponsor division (the Social Work Services Policy Division which is part of the Scottish Executive Education Department), but improvements were required in formalising documentary evidence for areas such as approved capital expenditure, to provide a suitable audit trail. Although there have been improvements in formalising the flow of information between the SSSC and the sponsor, there is still room to improve this important control.

Resolution: The SSSC will ensure that appropriate documentary evidence is sought and retained from the sponsor department.



- A problem can arise at the change of financial year. Grant-in-aid is drawn down each month on a mid-month basis therefore at the end of the financial year some of the 2005/6 grant-in-aid was used to fund the cash flow requirement for the first half of April. Cash flow requirements for April are made up of a mixture of old and new year expenditure. This is made a more significant problem for the SSSC due to the high value of bursary payments that are issued in early April. Although the grant in aid was properly accounted for in the Annual Report and Accounts by accruing a repayment of grant in aid there is scope to improve and formalise this process.

Resolution: The SSSC and its sponsoring department should agree a procedure to be used at the end of the financial year that clearly separates funding requirements into old and new year elements and then grant-in-aid should be drawdown on this basis. This would require two separate grant-in-aid claims with the old year claim being paid into the SSSC's bank account on or before 31 March and the new year claim being paid into the bank on or after 1 April which will ensure that funding is clearly identifiable to each financial year.

- **Fixed Assets:** The Fixed Assets policy requires to be updated to include guidance on the revaluation and indexation of fixed assets, as this is the first time the SSSC has revalued/indexed their fixed asset base.

Resolution: The Fixed Assets Policy will be updated as required.

- **Debtors** – Our year end audit testing noted that the year end debtors reconciliations have not been authorised by senior finance staff. Discussions with finance staff have indicated that the reconciliations have been reviewed, but an authorised signature is essential to evidence such checks. The authorisation of such reconciliations is an important control in the year end control environment.

Resolution: Debtors reconciliations will be appropriately authorised in future.

- **Equal pay claims:** During 2005/06 year a number of public sector bodies were at risk of facing equal pay claims from their employees. The SSSC anticipate that a job evaluation exercise currently being undertaken will negate the risk of equal pay claims impacting financially on the organisation. We will keep this area under review.

Resolution: The job evaluation scheme is intended to address the issue of equal pay claims. A reference will be included in the letter of representation.



Statement on Internal Control

23. The Statement on Internal Control (SIC) provided by the Accountable Officer reflects the main findings from both external and internal audit work. We have noted that the statement is not inconsistent with other information we are aware of from our audit. The statement refers to areas of internal control that require to be strengthened or developed further. These areas are:

- A formal risk management strategy document will be developed in 2006/07 that will consolidate and build upon existing risk management practices and clearly assign risk management responsibilities; and
- Budget holder training will be developed and delivered to all budget holders in 2006/07.

24. We will monitor progress in these areas in 2006/07.



Governance

Introduction

25. This section sets out our main findings arising from our review of the SSSC's corporate governance arrangements (including financial aspects).

Corporate Governance

26. Our work on corporate governance focused on systems of internal control; prevention and detection of fraud and irregularity; standards of conduct and the SSSC's financial position.
27. We relied on the work of Internal Audit to give us assurance in these areas to ascertain what governance arrangements are in place to manage them. We found that governance arrangements in these areas were generally well developed.

Risk Management

28. The SSSC has continued to develop risk management arrangements. However, we noted that although the draft strategy was presented to the Council in 2005/06, the strategy has yet to be formally agreed by the Council. We will continue to review the position in 2006/07 through review of the Council and Audit Committee minutes.

Risk Plan 1

Payroll Controls

29. We noted that the recommendations contained in the 2004/05 annual report in relation to evidencing payroll reconciliations and exception reports have not been fully implemented in 2005/06. Whilst these reports are being prepared and reviewed on a monthly basis, they are not being evidenced as such. In addition, the necessary authorisation controls relating to starters and leavers forms have not been adhered to. From our audit sample there were three leavers' forms that were not on file and could not be located by payroll staff. As payroll accounts for the major element of expenditure within the SSSC it is essential that appropriate controls are in place to manage the system.

Risk Plan 2 & 3



30. We also noted that there is no standard document in place to record amendments to payroll standing data. It is essential that processes are in place to record such amendments in a uniform and systematic manner. A standard amendment form should be introduced and all amendments made to payroll standing data should be recorded appropriately and held on individual employee files.

Risk Plan 4

Fixed Assets Expenditure

31. In our 2004/05 annual report we noted that the SSSC had a good working relationship with the sponsor department, but improvements were required in formalising documentary evidence to provide a suitable audit trail for approved capital expenditure. Although there have been improvements in formalising the flow of documentation between the SSSC and the sponsor department, there is still scope to improve this important control.

Risk Plan 5

32. The Fixed Assets policy requires to be updated to include guidance on the revaluation and indexation of fixed assets.

Risk Plan 6

Income

33. A problem can arise at the change of financial year. Grant-in-aid is drawn down each month on a mid-month basis therefore at the end of the financial year some of the 2005/6 grant-in-aid was used to fund the cash flow requirement for the first half of April. Cash flow requirements for April are made up of a mixture of old and new year expenditure. This is made a more significant problem for the SSSC due to the high value of bursary payments that are issued in early April. Although the grant in aid was properly accounted for in the Annual Report and Accounts by accruing a repayment of grant in aid there is scope to improve and formalise this process.

Risk Plan 7

Debtors

34. In our year end audit testing we noted that the year end debtors reconciliations had not been authorised by senior finance staff. Discussions with finance staff have indicated that the reconciliations have been reviewed, but an authorised signature is essential to evidence such checks. The authorisation of such reconciliations is an important control in the year end control environment.

Risk Plan 8



Follow Up of 2004/05 Action Plans

35. As part of our audit work we conducted a follow up review on the following reports submitted in 2004/5:

- The Grants and Bursaries Database Report; and
- The Annual Report.

36. The following actions are outstanding from the Grants and Bursaries Database Report:

- The implementation of the BACSTELip system has been delayed and cheques are still being handwritten leading to a risk that incorrect payments could be made. SSSC is currently in discussion with the Scottish Executive to resolve this issue.

Risk Plan 9

- Our original report noted that SSSC lacked a formal risk assessment and continuity plan. This plan has been developed by the Care Commission. The plan, entitled "ICT Disaster Recovery Plan" has yet to be formally approved and adopted by the Council.

Risk Plan 10

37. The following actions are outstanding from the 2004/05 Annual Report:

- The Standing Financial Instructions and the Management Agreement are still showing different monetary values relating to write offs.

Risk Plan 11

38. We will continue to monitor the progress made by SSSC in implementing the actions in 2006/07.



Looking Forward

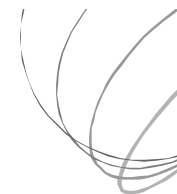
39. The SSSC faces significant challenges in 2006/07 and beyond, including:
- The Care Commission are carrying out a review of senior management. This will affect the SSSC as consideration is being given to merging the Director of Finance and Director of Human Resources posts into one Corporate Director post. The Care Commission's Director of Finance and Director of Human Resources currently supply professional services to the SSSC;
 - A review is to be undertaken of the Codes of Practice which set out the standards of conduct and practice expected of social service workers and their employees;
 - Consultation will take place on the Post Registration Training and Learning requirements for social care workers in phase two of registration which may lead to training being ring fenced for specific areas: and
 - Recruitment and training is required for members of the Conduct Committee to ensure fairness and transparency in all conduct hearings.
40. These areas, and the controls put in place by management to address the issues, will be subject to audit review during 2006/07.



Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
1	28	The Council should formally agree a Risk Management strategy for the SSSC to address the risk of incorrect procedures being followed.	Completed	Director of Finance & Administration	June 06
2	29	Payroll reconciliations and exception reports are not being signed as evidence of review. This leads to a risk that expenditure is not being fully controlled.	The Finance Manager will check control account reconciliations are being appropriately signed and countersigned on a quarterly basis.	Finance Manager	Immediate
			The Senior HR Adviser will do likewise for the payroll exception reports.	Senior HR Adviser	Immediate
3	29	Authorisation of starters and leavers forms is an important control ensuring only appropriate employees are added to or removed from the payroll. If this control is not in place there is a risk that inappropriate staff could be added to the payroll and that leavers are not removed and could still be paid. Leavers forms should be filed on employee files to ensure a complete audit trail.	Measures will be introduced to ensure forms are appropriately authorised. HR staff responsible for inputting information to the HR/payroll system will check the forms to ensure proper authorisation prior to input.	Senior HR Adviser	Nov 06
			Leaver forms will be filed as suggested.	Senior HR Adviser	Dec 06
4	30	There is a risk that amendments to the payroll are not properly recorded which may result in incorrect payments. A standard payroll amendment form should be introduced and all amendments made to payroll standing data should be recorded appropriately and held on individual employee files.	Agreed	Senior HR Adviser	Dec 06



Action Point	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
5	31	A sound system of internal control is based on appropriate documentary evidence providing a clear audit trail. The SSSC should ensure that a more formal arrangement exists between themselves and their sponsor department thus reducing the risk of misunderstanding.	This is an area that is regularly discussed with the Sponsor and improvements are regularly made. This process will continue.	Senior Management	On-going
6	32	The Fixed Assets policy should be updated to include guidance on the revaluation and indexation of fixed assets. The lack of guidance on this area leads to a risk that assets may be incorrectly accounted for.	Fixed assets were subject to indexation for the first time in 2005/06 in accordance with the new FReM that withdrew the option to use historic cost. The SSSC's Fixed Asset policy will be revised in accordance with this change.	Accountant	Dec 06
7	33	The SSSC should ensure that the process for drawing down expenditure is formalised. This would address the risk of funding relating to one year being used to fund expenditure in the following year.	Clear end of year draw down procedures will be drafted and agreed with the Sponsor Department.	Finance Manager	Jan 07
8	34	We noted that the year end debtors reconciliations have not been authorised by senior finance staff. Discussions indicated that the reconciliations had been reviewed, but an authorised signature is essential to evidence such checks and reduce the risk that expenditure is not being controlled.	There was a late change to this reconciliation. The original working paper was authorised by the Accountant but the replacement was not. For 2006/07 the working papers file will be reviewed specifically to ensure authorising signatures are present.	Finance Manager & Accountant	June 07
9	36	The requirement to produce handwritten cheques to make payments increases the risk that incorrect payments could be made.	The SSSC are in the process of moving to BACS payments for the majority of suppliers. However, manual cheques will still be required for first term bursary cheques.	Accountant	Jan 07



Action Point	Refer Para. No	Risk Identified	Planned Action	Responsible Officer	Target Date
10	36	The lack of a formal risk assessment and service continuity plan continues the risk that a loss of the Grants & Bursaries system for a period of time could be more serious than currently anticipated. The draft ICT Disaster Recovery plan should be adopted and approved by the Council.	Agreed	Director of Finance & Administration	March 07
11	37	There is an inconsistency between the monetary value of write offs detailed in the Standing Financial Instructions and the Management Agreement. This inconsistency should be rectified to reduce the risk of incorrect treatment of write offs.	Agreed	Director of Finance & Administration	March 07