

Communities Scotland

Report on the 2006/07 audit

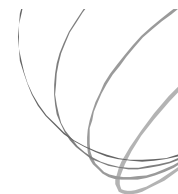


October 2007



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Executive Summary

Introduction

In 2006/07 we looked at the key strategic and financial risks being faced by Communities Scotland. We audited the financial statements and we also reviewed aspects of performance management and governance. This report sets out our key findings.

Financial Position

The outturn for 2006/07 was a net cost of operations of £910 million. Total income for the year was £33 million and total expenditure was £943 million including running costs of £26 million and non-cash expenditure of £5 million. Communities Scotland achieved an outturn of 99.97 per cent against budget, and operated within their resource budget limits.

Financial Statements

We have concluded that the financial statements of Communities Scotland give a true and fair view of the state of affairs of Communities Scotland as at 31 March 2007.

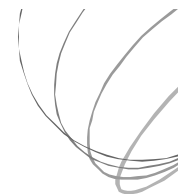
We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers.

Performance

The Corporate Plan 2005/08 includes corporate objectives which relate to the eight Ministerial targets set for 2006/07. In 2006/07 Communities Scotland achieved all of its targets (2005/06: seven targets out of, eight were achieved). The targets included ensuring an increase in the supply and quality of Scotland's housing stock by approving 7,100 houses for social rent and low-cost home ownership; agreeing a strategy with all local authorities on the Community Ownership Programme, and providing the support necessary for 45,000 tenants to vote on the future ownership and management of their homes; installing or repairing central heating systems in 12,000 homes; developing a risk-based approach to regulation, and undertaking regulatory assessments and inspections.

Efficient Government

Communities Scotland has reported achievement of cash and time-releasing efficiency savings of £7.6 million in 2006/07 with key contributions to these savings coming from the Affordable Housing Investment Programme by reducing the amount of grant per housing unit provided, the rationalisation of the IT systems and a review of the property portfolio. This compares with efficiency saving targets of £5.51 million agreed with the Scottish Executive.



Plans are under development to achieve further efficiencies as part of the Efficient Government Initiative in 2007/08. By the end of 2007/08 Communities Scotland expect their improvement initiatives to have made total savings of over £15 million which will achieve the target agreed with the Scottish Executive for the period 2005-2008. It will be challenging for Communities Scotland to deliver on these savings although to date the Agency has met the efficiency targets required of it.

Governance

The establishment and operation of an efficient and effective internal audit function forms a key element of effective governance and stewardship. We reviewed Communities Scotland internal audit and concluded that they continue to comply with Government Internal Audit Standards and we were able to place reliance on their work.

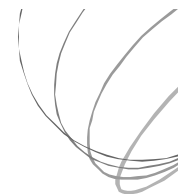
We reviewed corporate risk management arrangements at Communities Scotland. As part of that review we compared the risk management policy against good practice. We identified that, although the risk management policy covered a number of areas detailed in the good practice guidance, there were a number of the areas where management could take action to improve current arrangements. Communities Scotland is now carrying out a review of risk management which will include addressing the areas for improvement we identified.

Looking forward

The Minister for Communities and Sport has said that the Government wishes to consider how it will deliver its housing and regeneration commitments through a simpler public sector landscape and this could impact on the Agency and its structure in the future. We will monitor developments in this area.

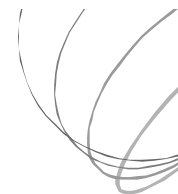
As part of the 2007/08 audit we will be reviewing the progress that Communities Scotland has made in strengthening its arrangements for securing Best Value since our baseline review work in 2005/06.

The Scottish Executive announced in June 2006 that an independent review of regulation, audit, inspection and complaints handling across all public services in Scotland would be undertaken by Professor Lorne Crerar. Communities Scotland is one of the scrutiny bodies covered by this review. A report was issued in September 2007 and we will review the recommendations made in it.



Introduction

1. This report summarises the findings from our 2006/07 audit of Communities Scotland. The scope of the audit was set out in our Audit Risk and Analysis Plan, which was presented to the Audit Committee on 7 February 2007. This plan set out our views on the key business risks facing the organisation and described the work we planned to carry out on financial statements, performance and governance.
2. In the Audit Risk and Analysis Plan we identified three main risk areas. These were performance; governance and internal control; and information management. Within these risk areas there are a range of more specific risks which informed our audit procedures. We have provided further comment on progress on selected risks at paragraphs 23, 26-29, 33-35, and 36.
3. We have issued two reports this year, and we briefly touch on the key issues we raised in this report. Each report set out our detailed findings and recommendations and Communities Scotland's agreed response.
4. This is the first year of a five year audit appointment. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of Communities Scotland during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website, www.audit-scotland.gov.uk.



Financial Statements

5. In this section we summarise key outcomes from our audit of Communities Scotland's financial statements for 2006/07, and comment on the key financial management and accounting issues faced.

Our responsibilities

6. We audit the financial statements and give an opinion on:
 - whether they give a true and fair view of the financial position of Communities Scotland and its net cost of operations for the period in question
 - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
 - the regularity of the expenditure and receipts.
7. 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 systems of internal control
 - assessing whether disclosures in the statement are consistent with our knowledge of Communities Scotland.

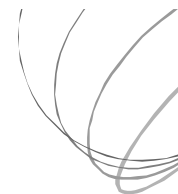
Overall conclusion

8. We have given an unqualified opinion on the financial statements of Communities Scotland for 2006/07.

Financial position

2006/07 outturn

9. The outturn for 2006/07 was a net cost of operations of £910 million. Total income for the year was £33 million and total expenditure was £943 million including running costs of £26 million and non-cash expenditure of £5 million. Funding was invested in delivering three Ministerial objectives within the Communities portfolio: the provision of good quality, sustainable and affordable housing, regenerating communities and promoting equal opportunities and active citizenship.



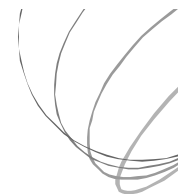
10. Expenditure on fixed assets during the year to 31 March 2007 amounted to £3 million. Total fixed assets at 31 March 2007 amounted to £91 million.
11. The financial statements for the year to 31 March 2007 show a deficit on the general fund of £139.129 million. This has arisen as a result of the requirement to account for the activities of Communities Scotland on an accruals basis, while recording funding from the Scottish Executive on a cash basis. Net current liabilities will be funded by the Scottish Executive as they arise. As a consequence, these financial statements have been prepared on a going concern basis.
12. The resources used by Communities Scotland during 2006/07 amounted to £919 million which was equivalent to expenditure of 99.97 per cent against budget. Communities Scotland operated within their resource budget limits.

2007/08 budget

13. Scottish Ministers have allocated initial funding of £793 million to Communities Scotland for the financial year 2007/08. This comprises:
 - £481 million for delivering the Affordable Housing Investment Programme
 - capital charges of £3 million and running costs of £25 million
 - £284 million to cover the regeneration, private sector housing, central heating initiative and equal opportunity programmes.
14. The initial funding for 2007/08 is a decrease of £127 million from the funds allocated for 2006/07. Additional funding may be granted during the year through revisions to the Budget Act Limits from policy decisions made by Scottish Ministers.

Issues arising from the audit

15. As required by auditing standards we reported to the audit committee in June 2007 on issues arising from our audit of the financial statements. There was only one issue we highlighted reflecting the good quality of the accounts and papers presented for audit: unadjusted errors which would have a net effect of decreasing by £116,896 the excess of expenditure over income for the year shown in the income and expenditure account were noted during audit testing. As these errors were immaterial to the accounts as a whole, officers in finance did not adjust the accounts for these errors and we agreed with this.

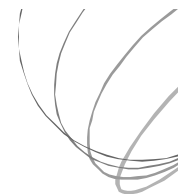


Statement on internal control

16. The Statement on Internal Control provided by Communities Scotland Accountable Officer reflected the main findings from both external and internal audit work. This recorded management's responsibility for maintaining a sound system of internal control and set out Communities Scotland's approach. No significant control weaknesses were highlighted.

Regularity assertion

17. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to her view on adherence to enactments and guidance. No significant issues were identified for disclosure.



Performance

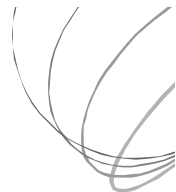
18. Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. As part of our audit we are required to plan reviews of aspects of the arrangements to manage performance, as they relate to economy, efficiency and effectiveness in the use of resources.
19. Accountable officers also have a duty to ensure the resources of their organisation are used economically, efficiently and effectively. These arrangements were extended in April 2002 to include a duty to ensure 'best value' in the use of resources.

Performance

20. The Corporate Plan 2005/08 includes corporate objectives which relate to the eight Ministerial targets set for 2006/07. The corporate objectives are to increase the supply of affordable housing, improve the quality of existing houses, improve the quality of services to tenants and homeless people, improve opportunities for people in disadvantaged communities and support the social economy.
21. The targets included ensuring an increase in the supply and quality of Scotland's housing stock by approving 7,100 houses for social rent and low-cost home ownership; agreeing a strategy with all local authorities on the Community Ownership Programme, and providing the support necessary for 45,000 tenants to vote on the future ownership and management of their homes; installing or repairing central heating systems in 12,000 homes; developing a risk-based approach to regulation, and undertaking regulatory assessments and inspections.
22. In 2006/07 Communities Scotland achieved all of its targets (2005/06: seven targets out of, eight were achieved). This was a significant achievement as Communities Scotland is set stretching targets by Scottish Ministers. For example, one target was to approve 7,100 houses for social rent and low cost home ownership across Scotland. This target was achieved and it was a vital target because of rising housing costs and increased demand in many areas.

Efficient government

23. As part of its commitment to the Efficient Government Initiative, Communities Scotland agreed efficiency savings targets for 2006/07 with the Scottish Executive. Communities Scotland has reported achievement of cash-releasing efficiency savings of £7.2 million and time-releasing efficiency savings of £0.4 million in 2006/07 with key contributions coming from the Affordable Housing Investment Programme by reducing the amount of grant per housing unit provided, the rationalisation of the IT systems and a review of the property portfolio. This compares with cash-releasing efficiency saving targets of £5.458 million and time-releasing efficiency saving targets of £0.052 million agreed



with the Scottish Executive. By the end of 2007/08 Communities Scotland expect their improvement initiatives to have made total savings of over £15 million which will achieve the target agreed with the Scottish Executive for the period 2005-2008. It will be challenging for Communities Scotland to deliver on these savings although to date the Agency has met the efficiency targets required of it.



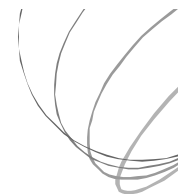
Governance

Overview of arrangements

24. This section sets out our main findings arising from our review of Communities Scotland governance arrangements. This year we reviewed:
- corporate risk management
 - key systems of internal control
 - internal audit
 - aspects of information and communications technology (ICT).
25. We also discharged our responsibilities as they relate to prevention and detection of fraud and irregularity, standards of conduct, and the organisation's financial position (see paragraphs 9-14).

Corporate risk management

26. As part of our audit plan we reviewed corporate risk management arrangements at Communities Scotland. As part of that review we compared the risk management policy with good practice. This work is carried out to give us assurance on internal controls and is required by the Code of Audit Practice.
27. Communities Scotland has a risk management policy, a risk framework and a risk matrix. These are captured in the December 2005 guidance note "*Procedures for Completion of Divisional and Area Network Risk Registers*". Each division and area office has a risk register and there is a corporate risk register with high level strategic risks.
28. The main issues we noted for management action were that:
- the roles and responsibilities section in the risk management policy could be expanded to include the roles of the Management Board and Corporate Management Team (CMT) and the roles of the risk owners, Audit Committee, internal audit and all staff
 - risk management should be reported on as a standing item at each Management Board meeting and the reports evidenced in the minutes
 - CMT should regularly review progress by the risk owner on implementing corporate risk register action plans and evidence that it has done so.



29. Communities Scotland has responded to our report and agreed action on the issues highlighted as part of its wider review of risk which is currently ongoing. The aim of the review is to align risk registers with critical success factors in achieving the Agency's strategic objectives and to embed risk management in the reporting framework. We will follow up the progress on this in 2007/08.

Systems of internal control

30. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In his annual report for 2006/07 the head of internal audit provided his opinion that, based on the internal audit work undertaken during the year, there was reasonable assurance on the adequacy and effectiveness of the systems of internal control.
31. As Communities Scotland use the Scottish Executive's key financial systems we focused on local controls in the Agency and relied on Audit Scotland's examination of the key financial systems within the Scottish Executive which underpin the organisation's control environment. We concluded that financial systems and procedures operated sufficiently well both at a local and central level to enable us to place reliance on them and to mitigate the risks of material misstatement of the accounts, error or fraud.

Internal audit

32. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2006/07 audit we assessed whether we could place reliance on Communities Scotland's internal audit function. We concluded that the internal audit service operates in accordance with the Government Internal Audit Manual and therefore placed reliance on internal audit in a number of areas.

Information and communication technology

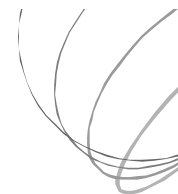
Computer services review – client questionnaire

33. As part of our risk based assessment, we identified Information and Communication Technology (ICT) as a priority area for review in 2006/07. Management were asked to complete a Computer Service Review Client Questionnaire (CSR-CQ) and we reported our detailed findings from this exercise separately in our report issued in April 2007.



34. The seven key areas covered by the review were: ICT strategy, organisational structure, installation management, service delivery, asset protection and security, business continuity/contingency and data networking.

35. We identified some examples of good practice, in particular, completing an annual IT learning and development plan. We also identified areas where improvements can be made, in particular, implementing procedures over access rights to applications and password protocols. Communities Scotland is implementing the agreed actions and we will follow up in 2007/08.



Looking Forward

36. Communities Scotland faces a number of challenges in 2007/08:

- **Strategic Review** - in a parliamentary debate on housing on 21 June 2007, Stewart Maxwell, Minister for Communities and Sport, outlined his intentions for Communities Scotland. He has said that the government wishes to consider how it will deliver its housing and regeneration commitments through a simpler public sector landscape. In the meantime, there will be no major changes to the Agency; however this could impact on the Agency and its structure in the future. We will monitor developments in this area.
- **Best Value** - as part of the 2007/08 audit we will be reviewing the progress that Communities Scotland has made in strengthening its arrangements for securing Best Value since our baseline review work in 2005/06. Over the next year we will also be developing and refining our approach to the audit of public bodies' arrangements to secure economy, efficiency and effectiveness in the use of resources, as this is one of our key objectives as auditors, set out within the new Code of Audit Practice approved by the Auditor General. This will inform our ongoing work to develop an approach to the audit of Best Value across the Scottish public sector. We intend to consult with both clients and stakeholders at key stages of these initiatives.
- **Efficient Government** - the achievement of future Efficient Government targets represents a challenge for Communities Scotland although to date the Agency has met the efficiency targets required of it.
- **Risk Management** - Communities Scotland is currently reviewing their risk management policy with the aim of embedding risk management in the reporting framework. The Agency has introduced a balanced scorecard approach in assessing its overall efficiency and effectiveness.
- **Crerar Review** - the Scottish Executive announced in June 2006 that an independent review of regulation, audit, inspection and complaints handling across all public services in Scotland would be undertaken by Professor Lorne Crerar. Communities Scotland is one of the scrutiny bodies covered by this review. A report was issued in September 2007 and we will review the recommendations made in it.