

Social Work Inspection Agency

Report on the 2006/07 Audit



September 2007



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Executive Summary

Introduction

In 2006/07 we audited the financial statements of the Social Work Inspection Agency (SWIA) and we looked at aspects of performance management and governance. This report sets out our key findings.

Financial Position

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

SWIA's overall financial position is stable. Outturn for 2006/07 was below budget due mainly to salary savings as a result of difficulties in recruiting suitably experienced inspectors. This problem is likely to affect 2007/08.

Financial management and control has improved considerably over the past year.

Performance

Throughout 2006/07 SWIA continued to develop its inspection programme and methodologies, with the objective of completing a full review of social work services in all 32 Scottish local authorities by 2009 (14 reviews completed by the end of March 2007). The Agency has also continued to develop and undertake inspections in specialist areas, and provides advice to the Scottish Executive on policy development issues relating to social work services.

Governance

Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. Overall the corporate governance and control arrangements for SWIA operated satisfactorily during the year, as reflected in the Statement on Internal Control. There remains scope to improve internal control and governance procedures in some areas.

Looking forward

SWIA's operations continue to grow since its inception in April 2005, but should begin to stabilise during 2007-08 once its staffing complement is complete. This will provide an opportunity to develop measures to meet best value and efficient government objectives set by the Scottish Executive.

Audit Scotland
September 2007



Introduction

1. This report summarises the findings from our 2006/07 audit of SWIA. The scope of the audit was set out in our Audit Plan, which was presented to the Audit Committee on 14 February 2007. This plan described the work we planned to carry out on financial statements, performance and governance.
2. Appendix A of this report sets out the key risks highlighted in this report and the action planned by management to address them.
3. 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 SWIA 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

4. In this section we summarise key outcomes from our audit of SWIA financial statements for 2006/07, and comment on the key financial management and accounting issues faced.

Our responsibilities

5. We audit the financial statements and give an opinion on whether:
 - they give a true and fair view of the financial position of SWIA 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
 - the regularity of the expenditure and receipts.
6. 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 SWIA.

Overall conclusion

7. We have given an unqualified opinion on the financial statements of SWIA for 2006/07.
8. We would also note that there have been significant improvements in financial management and control over the year, particularly in the preparation of accounts where the Agency met an extremely challenging date of 27 April for a first draft set of accounts for audit.

Financial position

2006/07 outturn

9. Net operating costs for the year of £3.762m (2005/06: £2.415m) were funded by parliamentary grant through the Scottish Executive of £3.371m (2005/06: £2.401m), resulting in a net excess of expenditure over income of £347k. The net asset position has deteriorated over the year, from a debit of £22k in 2005/06 to a credit of £347k as at 31 March 2007, due mainly to higher levels of accruals at year end. The going concern basis of the accounts is not affected by this situation and appropriate disclosure has been made in the accounts.



2007/08 budget

10. SWIA budget for 2007/08 has initially been set at £4.25m, but this is likely to increase to £4.328m to reflect additional IT service costs payable to the Scottish Executive. The bulk of expenditure relates to salary and administration costs, with negligible capital spending. SWIA operations will continue to grow but at a slower rate than in the previous two years, and should stabilise once the staffing complement is achieved. However, difficulty in recruiting suitably experienced inspectors could lead to budget savings this year.

Issues arising from the audit

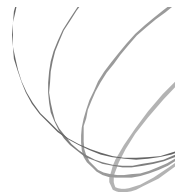
11. We reported the following issues to the Audit Committee on 4 June 2007:
12. **Employment status of inspectors:** A number of temporary inspectors are currently paid as contractors when their employment status indicates that they should be treated as employees. In these circumstances there is a risk that the Agency could be liable for the tax and national insurance deductions relating to such staff, plus the possibility of a fine for failing to properly apply employment law. SWIA has agreed to review the employment status of all temporary staff to ensure that it conforms to relevant legislation and guidelines.
13. **Control weaknesses:** A number of control and other weaknesses identified and reported as part of last year's audit process affected the Agency's operations during 2006/07. Considerable progress has been made in addressing these issues and in 2006/07 none of these issues had an impact on the audit opinion.

Statement on Internal Control

14. The Statement on Internal Control (SIC) included with SWIA's accounts summarises the Accountable Officer's responsibilities for maintaining a sound system of internal control and the measures put in place to achieve this. The internal control systems and governance arrangements have been reviewed by internal audit and found to be generally satisfactory. The findings from our audit work have not identified any matters that are inconsistent with the statements and conclusions recorded in the SIC.

Regularity assertion

15. 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 was 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

16. 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.
17. 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.
18. As part of the 2007/08 audit we will be reviewing the progress that the SWIA has made in strengthening their 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.
19. Throughout 2006/07 SWIA continued to develop its inspection methodologies and services and is working towards completing a full review of social work services in all 32 Scottish local authorities by 2009. As at the end of March 2007 it had completed 14 such reviews, with planned dates for the remaining 18 reviews. SWIA has also provided advice to the Scottish Executive and Ministers on policy matters relating to social work services.

Governance

Overview of arrangements

20. This section sets out our main findings arising from our review of SWIA's governance arrangements.
21. 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 paragraph 8).
22. Our overall conclusion is that arrangements within SWIA were generally satisfactory. Weaknesses identified in the previous year have been addressed and further improvements in the overall control environment have been implemented or are about to be implemented. We will continue to monitor progress on these issues in 2007/08.

Systems of internal control

23. 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 substantial assurance on the adequacy and effectiveness on the systems of internal control.
24. As part of our audit we reviewed the high level controls in a number of SWIA's systems that impact on the financial statements. We are pleased to note that considerable progress has been made in addressing weaknesses identified and reported during our audit of the 2006/07 accounts, particularly the appointment of a qualified accountant to support the finance function, and that further improvements in control and monitoring are under way.

Internal audit

25. 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 SWIA'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 a number of internal audit reviews to provide assurance on our work.

Looking Forward

26. SWIA faces a number of challenges in 2007/08, which include:

- **Best Value** – Revised guidance on best value in the wider public sector has now been issued. SWIA will need to ensure that it has mechanisms in place that enable it to demonstrate continuous improvement and that the principles of best value are embedded. Audit Scotland will be developing its approach to best value in the wider public sector in due course.
- **Efficient Government** - The achievement of future Efficient Government targets represents a challenge for the organisation and its partner organisations.
- **Whole of Government Accounts (WGA) and Faster Closing Agenda** – The timetable for the completion of audited accounts for all public sector bodies is being brought forward in stages to facilitate the completion of a WGA for the UK public sector. The overall project is managed by HM Treasury, with the Scottish Executive co-ordinating the process in Scotland. SWIA will need to maintain close liaison with staff in the Scottish Executive on timetabling and related resourcing issues arising from this project.