

Bòrd na Gàidhlig

Report on the 2007/08 Audit



November 2008



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Executive Summary

Introduction

In 2007/08 we looked at the key strategic and financial risks being faced by Bòrd na Gàidhlig. 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 Bòrd is required to work within the resource budget set by the Scottish Government. In 2007/08 the Bòrd received funding of £4.629 million from the Scottish Government, and incurred net operating costs of £4.681 million, resulting in a deficit for the year of £0.052 million. The deficit was met from accumulated reserves.

Scottish Ministers have agreed a resource budget for the Bòrd of £5.459 million for 2008/09. The Bòrd is expected to deliver 2% cash-releasing efficiencies from 2008/09 to 2010/11, and this is reflected in the budget agreed with Scottish Ministers. The Bòrd will also be required to closely monitor community projects delivery at the financial year-end, to avoid any potential underspends.

Financial Statements

We have given an unqualified opinion on the financial statements of the Bòrd for 2007/08.

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 Bòrd recognises the importance of performance measures which demonstrate achievement of its core objectives. However, it has also recognised the need to develop skills and capacity in this area, and is building this into the revised organisational structure. The development of output focused measures that will link to the Scottish Government's National Performance Framework indicators is also being considered by senior management. We will continue to monitor the Bòrd's progress in this area.

Best Value

The Bòrd approved a Best Value statement for the organisation in March 2008. A review of financial management has also been completed, based on the Audit Scotland financial management toolkit, and a draft report considered by the audit committee. The draft report highlights key areas where there has been significant improvement in arrangements over the last year, including internal reporting to the Bòrd and budgetary analysis. It also highlights strategic financial management and planning, and integration with



performance reporting as the key improvement areas to focus on going forward. We will continue to monitor the Bord's plans for taking these issues forward.

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 the Bòrd operated satisfactorily during the year, as reflected in the Statement on Internal Control.

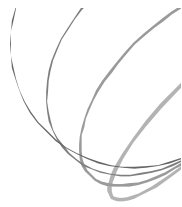
We examined the key financial systems which underpin the organisation's control environment. We concluded that financial systems and procedures operated sufficiently well to enable us to place reliance on them. We noted a potential risk around retrospective approval of certain grants by Bòrd members and steps have been taken to ensure that the Bòrd does not inadvertently commit itself to funding prior to member approval.

Looking forward

The final part of our report notes some key risk areas for the Bòrd going forward. We have highlighted a number of national issues which affect all public sector bodies such as the Bòrd, including the introduction of Scotland Performs; the impact of international financial reporting requirements; and the review of data handling arrangements in public bodies across Scotland. The Bòrd also faces challenges in successfully delivering its activities against a background of organisational restructuring and tighter financial restrictions within the resource budget for 2008/09 and beyond.

The assistance and co-operation given to us by Bòrd members and staff during our audit is gratefully acknowledged.

Audit Scotland
November 2008



Introduction

1. This report summarises the findings from our 2007/08 audit of Bòrd na Gàidhlig. The scope of the audit was set out in our Audit Plan, which was presented to the audit committee on 19 March 2008. 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. We have issued a range of 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 the Bòrd's agreed response.
3. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the Bòrd 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 Position

4. In this section we summarise key outcomes from our audit of the Bòrd's financial statements for 2007/08, and comment on the key financial management and accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available to it and its financial performance in the use of those resources.

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 the Bòrd and its expenditure and income for the period in question
 - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
 - the consistency of the information which comprises the unaudited part of the remuneration report with the financial statements
 - 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 acting Ceannard as accountable officer to obtain assurances on systems of internal control
 - assessing whether disclosures in the statement are consistent with our knowledge of the Bòrd.

Overall conclusion

7. We have given an unqualified opinion on the financial statements of the Bòrd for 2007/08.
8. As agreed the unaudited accounts were provided to us in June, supported by a working paper package. The standard of the supporting papers and the responses from the Bòrd staff allowed us to present our key findings and provide a proposed opinion to the audit committee on 21 August, in line with the agreed timetable. At the committee meeting it was noted that a number of amendments were still to be reflected in the accounts, and some outstanding information was to be provided prior to signoff. Scottish Government approval of the acting accountable officer arrangements was received on 24 September. However, other key information was still outstanding at that date, and this led to a delay in signing the accounts, which were provided on 24 October, some two months after the audit committee date.



Financial Position

Outturn 2007/08

9. The Bòrd is required to work within the resource budget set by the Scottish Government. In 2007/08 the Bòrd received funding of £4.629 million, and incurred net operating costs of £4.681 million, resulting in a deficit for the year of £0.052 million. The deficit was met from accumulated reserves.

2008/09 Budget

10. Scottish Ministers have agreed a resource budget for the Bòrd of £5.459 million for 2008/09. This includes £300,000 additional running costs funding to cover the costs of the revised organisational structure, along with interim staff costs and training and development needs. Also included in the settlement is £700,000 new monies for projects associated with the National Plan for Gaelic. Notwithstanding the additional funding, the Bòrd is expected to deliver 2% cash-releasing efficiencies from 2008/09 to 2010/11, and this is reflected in the budget agreed with Scottish Ministers. The majority of spend by the Bòrd is grant awards to third parties for the promotion of Gaelic education and culture, as well as development of Gaelic language plans. Consequently, in addition to identifying internally generated savings, the Bòrd will need to demonstrate how efficiencies are being achieved through these funding arrangements. We shall review the arrangements for identifying and monitoring efficiencies during our 2008/09 audit work.
11. Included within the £700,000 new monies identified above is £150,000 specific funding for disbursement to community projects. Bids for project funding have been sought and are currently being evaluated. A key issue for the Bòrd when considering bids is the timing of project delivery and the impact on the accounting treatment of grant awards. A number of issues were noted during our 2007/08 audit in relation to grant awards paid in advance of service delivery, with adjustments required to the financial statements. The Bòrd is also likely to face tight restrictions around year-end flexibility on carry forward of underspends. It is therefore important that progress on projects due to be delivered in 2007/08 is closely monitored in the run up to the year end, to avoid a any potential underspend. We will continue to monitor this issue during 2008/09.

Issues arising from the audit

12. As required by auditing standards we reported to the audit committee on 21 August 2008 the main issues arising from our audit of the financial statements. The key issues reported were:
13. **Prepayment of grants** - Grant funding of £35,000 per annum has been provided over the last five years to Tobar an Dualchais for its ongoing digital media project. During 2007/08, an application was approved for a two year funding extension to the project, and a further £35,000 was paid in March



2008. This funding was included in the draft financial statements as 2007/08 expenditure. However, this funding related to activities which will take place in 2008/09.

14. An award of £15,000 was paid to An Comunn Gaidhealach in March 2008 towards the costs of a restructuring exercise, including the recruitment of new staff. However, at the time of award, the Chief Executive post within An Comunn Gaidhealach was vacant, and it was apparent the costs associated with the project would not be incurred until later in the 2008/09 financial year.
15. Both grant payments have now been classed as prepayments of expenditure, and an accrual of £50,000 included in the certified financial statements for 2007/08.
16. **Grant policy** - To ensure transparency over consideration and award of grants, it is important that the policy and processes are adequately documented. This should include issues such as criteria to be used when considering applications, the approval process including any delegated authorities, the payment process, and the accounting treatment of awards. However, our audit highlighted that many of these aspects were not formally documented by the organisation. A review of arrangements has now been undertaken, and high level grant award principles established to inform future grant awards. Work is continuing on developing specific grant procedure notes to formalise other aspects of current practice.

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 acting Accountable Officer as to her view on adherence to enactments and guidance. No significant issues were identified for disclosure.



Governance

Overview of arrangements

18. This section sets out our main findings arising from our review of the Bòrd's governance arrangements. This year we reviewed:
- key systems of internal control
 - internal audit.
19. 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 7-8). Our overall conclusion is that arrangements within the Bòrd are sound and have operated through 2007/08.

Strategy and delivery

20. The Bòrd has gone through a significant period of change over the last financial year. In March 2007 the former Ceannard retired, with the finance manager standing in as acting Ceannard until the new Ceannard was appointed in September 2007. The new Ceannard provided the capacity to review delivery arrangements and progress the formalisation of policies and procedures to support governance and control arrangements within the Bòrd.
21. In July 2008, the chair of the Bòrd stepped down, to take up a new position in the University of the Highlands and Islands. An interim chair was elected in July, and will remain in post until a new chair is appointed by Ministers. In August 2008, the Ceannard stepped down, and an acting Ceannard has been appointed from within the current staff, until a new Ceannard can be recruited.
22. In an organisation with such a small staffing complement, these changes have inevitably had an impact on the organisation's capacity, and consequently its ability to deliver. It also places a greater demand on remaining Bòrd members and officers to ensure that the organisation remains on the proper strategic direction. Additional skills and experience have been provided through secondments from the Scottish Government during the year, and the proposed new organisational structure should provide some additional capacity. Going forward, it is important that there is a period of stability for the organisation, to allow it to consolidate its position, and facilitate effective delivery of its strategy. We will continue to monitor developments during 2008/09.



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 her annual report for 2007/08 the head of internal audit provided her opinion that, based on the internal audit work undertaken during the year, there was reasonable 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 the Bòrd's systems that impact on the financial statements. Our overall conclusion was that key controls were operating adequately, with the exception of one issue noted around Bòrd approval of grant awards. Grant applications made by organisations are considered by officers, and where successful applications are £5,000 or less, they are approved by the Ceannard, and the organisations notified. For awards in excess of £5,000, officers present a recommended approval list for homologation at the following Bòrd meeting. During March 2008, a number of grant applications were considered and approved by the management team. The organisations were notified of their successful application, and payment made prior to the financial year end. Six of the approvals with a total value of £66,000 were in excess of £5,000 and required Bòrd approval. Retrospective approval for these awards was received during the homologation of grant awards at the April Bòrd meeting. However, had the Bòrd decided not to accept the recommendations of officers, there is risk that the prior notification to organisations created an obligation to pay the grant.
25. The Bòrd have agreed that for awards requiring Bòrd approval, future correspondence with organisations will indicate only that the application will be submitted to the Bòrd for consideration. Monies will only be paid out, in line with conditions of grant, once Bòrd approval is received. These revised procedures will be formalised in the grant policy documentation being developed.

Prevention and detection of fraud and irregularities

26. The Bòrd has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption, including policies and codes of conduct for staff and Bòrd members.

Internal Audit

27. 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 2007/08 audit we assessed whether we could place reliance on the Bòrd's internal audit function. We concluded that TirArd MacKenzie operates in accordance with the Government Internal Audit Manual and therefore



placed reliance on their work in number of areas during 2007/08, as we anticipated in our annual audit plan.

Statement on Internal Control

28. The Statement on Internal Control provided by the Bòrd's 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 the Bòrd's approach to this. The statement recognises progress in formalising a number of key policies and procedures during the financial year, including the risk management strategy, procurement policy, fraud management and response policy, and financial controls procedures statement.



Performance Management

29. 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.
30. 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.

Best Value developments

31. The positive impact of the Best Value concept in local government led Scottish Ministers to introduce a non-statutory Best Value duty on all public sector accountable officers (i.e. across health and central government) in 2002. This was reinforced by refreshed Ministerial guidance in 2006, highlighting the importance that the Scottish Government places on Best Value as a means of supporting public service reform.
32. That position was again re-iterated in the Scottish Government's recent response to the Crerar scrutiny review which credited the Best Value regime as a key driver of modernisation and improvement in public services. Audit Scotland is committed to extending the Best Value audit regime across the whole public sector and significant development work has taken place over the last year.
33. The framework for our proposed Best Value audit approach was agreed by Audit Scotland's Corporate Management Team in September 2007. It is based on the key principles of flexibility and proportionality; alignment and integration with our existing activities; being delivered within our existing resources, and with an evolutionary implementation.
34. Using the Scottish Government's nine best value principles as the basis for our audit activity, we have identified five priority development areas (Use of Resources, Governance and Risk Management, Accountability, Review and Option Appraisal, and Joint Working) for our initial development work.
35. Currently we are concentrating on the development of Use of Resources audit toolkits, focusing initially on Financial Management, Efficiency, and Information Management. These toolkits are being piloted in a sample of NHS and central government clients during 2007/08 and 2008/09. Developed toolkits will also be made available to public bodies to consider for self assessment.



36. The Bòrd approved a Best Value statement for the organisation in March 2008. This statement sets out at a high level how the Bòrd's operations and practices link to the nine key characteristics of Best Value identified by the Scottish Government as core to public services. Since then, a review of financial management has also been completed, based on the Audit Scotland financial management toolkit, and a draft report considered by the audit committee. The draft report highlights key areas where there has been significant improvement in arrangements over the last year, including internal reporting to the Bòrd and budgetary analysis. It also highlights strategic financial management and planning, and integration with performance reporting as the key improvement areas to focus on going forward. We will continue to monitor the Bòrd's plans for taking these issues forward.

Performance Management

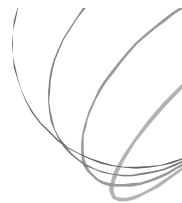
37. The Bòrd's corporate plan outlines the aims and objectives of the organisation, and high level measures to demonstrate achievement of these. However, these measures are often longer term in nature and can be difficult to quantify.
38. The Bòrd recognises the importance of performance measures which demonstrate achievement of its core objectives. However, it has also recognised the need to develop skills and capacity in this area, and is building this into the revised organisational structure. The acting Ceannard, along with the Improvement Plan Committee, is considering the development of output focused measures that will link to the Scottish Government's National Performance Framework indicators. We will continue to monitor the Bòrd's progress in this area during our audit.



Looking Forward

39. The Bòrd faces a number of challenges in 2008/09, which include:

- **International Financial Reporting Standards (IFRS)** – As part of the UK Budget 2007 the Chancellor announced that the timetable for IFRS implementation was to be extended by a year with central government accounts in Scotland to become IFRS compliant with effect from the 2009/10 financial year. The Scottish Government have notified central government bodies that they will be required to produce shadow IFRS based accounts for the financial year in 2008/09, including a restated balance sheet as at 1 April 2008. A detailed timetable and list of requirements is awaited from the Scottish Government. This process may require significant resource to complete and it will be important that the restatement is tackled early in 2008/09, with a plan in place to manage the transition.
- **Scotland Performs** – The Scottish Government is continuing to develop its approach to performance management based on a National Performance Framework and outcome agreements. The National Performance Framework is based on the outcome based 'Virginia-style' model of performance measurement and reporting. In support of this the Scottish Government has developed a new electronic tool and website to communicate to the public on Scotland's progress. This will include progress on overall delivery of the administration's purpose for Government, the five strategic objectives for Scotland and other aspects of the outcomes based National Performance Framework. We will consider how the Bòrd's development of its internal performance arrangements supports the National Performance Framework as part of the 2008/09 audit.
- **Efficiency and future funding** – Budgets for 2008/09 and the immediate future will need to be managed within a tighter funding regime. This includes significantly less scope for the application of end of year flexibility for the Government with HM Treasury until the next Spending Review; no option to transfer funds from capital to revenue; and the impact of the introduction of International Financial Reporting Standards (IFRS), particularly on leases and infrastructure accounting. The challenge for the Bòrd is to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives.
- **Data handling** – The Scottish Government carried out a review of data handling arrangements in Scotland, in response to failures in UK government bodies procedures and practices during 2007. The review considered current policies and procedures on data protection, consistency with government standards and local arrangements for implementation of procedures. The final report, published in June 2008, identified good practice across the public sector, and made a number of recommendations for improvement. We will monitor the Bòrd's response to the review and action taken as part of our 2008/09 audit.



- **Organisational structure** – Over the last year, the Bòrd has been seeking funding and approval for a revised organisational structure, to provide additional capacity and focus on delivery of objectives. Additional resources and support have been provided during the year through staff secondments from the Scottish Government, and revisions to the current structure will be introduced during 2008/09. We will continue to monitor developments in this area during the audit.
- **Shared services** – In the previous year, the Bòrd held a number of meetings with other central government bodies in Inverness with a view to sharing accommodation and support services such as IT. However, progress in this area has been limited due to management changes during the year, and the focus on core delivery through the improvement plan. Shared services remain a key element of the Scottish Government's drive for improved efficiency within public services and we will continue to monitor progress during 2008/09.