

Communities Scotland

Report on the 2007/08 Audit



September 2008



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Executive Summary

Introduction

In 2007/08 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.

In September 2007 a decision was made to transfer the functions of Communities Scotland to the core Scottish Government and a new body, the Scottish Housing Regulator. As a result, Communities Scotland was dissolved from 31 March 2008.

Financial Position

The net cost of operations in 2007/08 totalled £897 million and was within resource budget limits. Total income for the year was £33 million and total expenditure was £930 million, including programme expenditure of £904 million and running costs of £23 million.

The financial statements for the year to 31 March 2008 showed a deficit on the general fund of £123.807 million. This was due to the requirement to account for the activities of Communities Scotland on an accruals basis, while recording funding from the Scottish Government on a cash basis. As a result of the abolition of Communities Scotland on 31 March 2008, all its assets and liabilities transferred on 1 April 2008 to the core Scottish Government and the new Scottish Housing Regulator.

Financial Statements

We have given an unqualified opinion on the financial statements of Communities Scotland 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

This was the last year of the three-year efficiency programme. In 2007/08, Communities Scotland achieved savings of £3 million against a target for efficiency savings agreed with the Scottish Government of £10.7 million. The main contribution to savings was through improvements in management and administration in the Central Heating Programme. The Affordable Housing Investment Programme was set a target of £9 million to reduce the average amount of grant provided per housing unit. No savings were achieved, however, due to increased land costs and the number of small projects on difficult sites. Over the three years the Agency achieved overall savings of £10.7 million, falling short of the target of £16.1 million.



Communities Scotland was set ten ministerial targets in 2007/08. The targets included funding a further 8,000 affordable homes, working with social landlord organisations to ensure that they reduced the number of houses failing to meet the Scottish Housing Quality Standard by at least 25,000, and ensuring central heating systems were installed or repaired in 10,000 homes and that insulation measures were installed in 10,000 homes. Eight targets were met, including two which were met slightly after the year end and one where confirmation is still awaited. One target was missed and one was overtaken by policy developments. This was a considerable achievement in a year of significant organisational change.

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 Communities Scotland operated satisfactorily during the year, as reflected in the Statement on Internal Control. Although the Audit Committee met only once during the year, papers were circulated for the scheduled mid year meetings to members to keep them advised of routine business. The Management Board also met at regular intervals and, following the announcement of the abolition of the Agency, responsibility for the management of associated risks transferred to the Transition Project Board which met on a monthly basis.

We examined the key financial systems which underpin the organisation's control environment. Overall we concluded that financial systems and procedures operated sufficiently well to enable us to place reliance on them. This was notable given the changes that occurred during the wind down of Communities Scotland, with staff transferring to new posts.

Closing Remarks

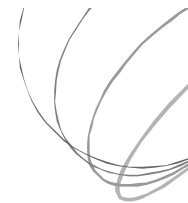
The assistance and co-operation given to us by Board members and staff during this the final year of the audit of Communities Scotland is gratefully acknowledged. We are also grateful for the assistance given throughout the period of our audit appointment.

**Audit Scotland
September 2008**



Introduction

1. This report summarises the findings from our 2007/08 audit of Communities Scotland. The scope of the audit was set out in our Audit Plan, which was submitted to the Accountable Officer on 18 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 the 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 Communities Scotland's agreed response.
3. In September 2007 a decision was made to transfer the functions of Communities Scotland to the core Scottish Government and a new body, the Scottish Housing Regulator. As a result, Communities Scotland was dissolved from 31 March 2008.
4. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by Board members and staff during the course of this final year of the audit of Communities Scotland. We are also grateful for the assistance given throughout the period of our audit appointment. 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

5. In this section we summarise key outcomes from our audit of Communities Scotland 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

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 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 Review of the Year: The Wider Agenda, Financial Review, History and Statutory Background, Management Board, Appointment of Auditors, Post Balance Sheet Events and Audit Information included in the Annual Report, with the financial statements; and
 - 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; and
 - 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 2007/08.
9. As agreed, the unaudited accounts were provided to us on 19 May 2008 supported by a comprehensive working paper package. The good standard of the supporting papers and the timely responses from Communities Scotland staff allowed us to conclude our audit within the agreed timetable and provide our opinion to the Audit Committee on 30 June 2008.



Financial Position

Outturn 2007/08

10. Communities Scotland was required to work within the resource budget set by the Scottish Government. The resources used by Communities Scotland during 2007/08 amounted to £904.860 million compared with a final budget allocation of £905.040 million, equivalent to expenditure of 99.98% against budget.
11. Communities Scotland's net cost of operations for 2007/08 was £897.408 million (2006/07 restated: £896.325 million). Total income for the year was £32.717 million and total expenditure was £930.125 million, including programme expenditure of £904.028 million and running costs of £23.438 million. The net liability position decreased in 2007/08 by £11.191 million to £114.720 million.
12. The financial statements for the year to 31 March 2008 showed a deficit on the general fund of £123.807 million. This was due to the requirement to account for the activities of Communities Scotland on an accruals basis, while recording funding from the Scottish Government on a cash basis. As a result of the abolition of Communities Scotland on 31 March 2008 all its assets and liabilities transferred on 1 April 2008 to the core Scottish Government and the new Scottish Housing Regulator.

Issues arising from the audit

13. As required by auditing standards we reported to the audit committee on 30 June 2008 the main issues arising from our audit of the financial statements. The key issues reported were:
14. **Obsolete IT assets** – the cost of office equipment in the first draft of the financial statements was £3.6 million, with accumulated depreciation of £3.4 million. We identified a number of old assets and a subsequent review of the fixed asset register by finance staff identified IT assets with a cost of approximately £3.3 million which were no longer in use. Assets no longer in use should be removed from the fixed asset register and financial statements. However, the inclusion of these assets had no effect on the Balance Sheet or net cost of operations for the year as the net book value of the assets was nil and consequently no depreciation was charged. The accounts were amended to reflect the removal of these assets from the fixed asset register.
15. **Omission of rent receivable** – rent of £270,000 was due from tenants of Thistle House which is owned by Communities Scotland. The rental charge had not been agreed with the tenants by 31 March 2008 and no invoice was raised or accrued in 2007/08. As a result of this omission the net cost of operations for the financial year for Communities Scotland was overstated by this amount. Rental income will be included in the Scottish Government's financial statements for the year to 31 March 2009 when the charge is invoiced.



16. **Omission of programme expenditure accruals** – finance staff informed us that Community Regeneration Fund grant claims of £319,000 relating to 2007/08 were not notified to them in time to accrue in the financial statements. As a result, the net cost of operations was understated by this amount. These payments will be processed in 2008/09 by the Scottish Government.

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 his view on adherence to enactments and guidance. No significant issues were identified for disclosure.



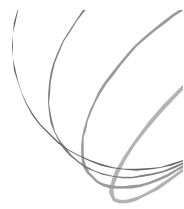
Governance

Overview of arrangements

18. This section sets out our main findings arising from our review of Communities Scotland governance arrangements. This year we reviewed:
- key systems of internal control;
 - internal audit; and
 - aspects of information and communications technology (ICT).
19. We also discharged our responsibilities as they relate to the prevention and detection of fraud and irregularity; standards of conduct; and the organisation's financial position (see paragraphs 10 to 12). Our audit took into account the increased risk which arises during any period of change. Our overall conclusion is that arrangements within Communities Scotland were generally sound and operated throughout 2007/08.
20. Although the audit committee met only once during 2007/08, in June 2007, papers were circulated for the scheduled mid year meetings to members to keep them advised of routine business. The Management Board also met at regular intervals during the year and, following the announcement of the abolition of the Agency, responsibility for the management of associated risks transferred to the Transition Project Board which met on a monthly basis. The transition project was delivered in line with Scottish Government guidance by a Project Team which reported to the Project Board.

Systems of internal control

21. 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 2007/08 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.
22. As part of our audit we reviewed the high level controls in a number of Communities Scotland systems that impact on the financial statements. Our overall conclusion was that key controls were operating effectively which was notable given the changes that occurred during the wind down of Communities Scotland, with staff transferring to new posts.



Prevention and detection of fraud and irregularities

23. Communities Scotland had appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption, including policies and codes of conduct for staff and Board members.

Internal Audit

24. 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 Communities Scotland's internal audit function. We concluded that the internal audit service operated in accordance with the Government Internal Audit Manual and therefore placed reliance on their work in a number of areas during 2007/08, as we anticipated in our annual audit plan.

Statement on Internal Control

25. The Statement on Internal Control provided by Communities Scotland'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 Communities Scotland's approach to this. Disclosures were made in the statement regarding the advice and support available to the Accountable Officer in the period leading up to the abolition of Communities Scotland. These included setting up the Transition Project Board.

Information and Communication Technology

26. As part of our 2006/07 audit of Communities Scotland, we carried out a Computer Services Review and identified risks to the organisation and scope for improvement in a number of areas. Communities Scotland agreed to take action on the identified risks within a set timescale. As part of the 2007/08 audit these areas were revisited to determine whether the risks had been addressed.

The positive progress made included:

- good project management processes e.g. the use of PRINCE2 methodology and post implementation reviews;
- the Scottish Government's ISIS providing an updated service catalogue for the use of the SCOTS network;
- adherence to the Scottish Government's information security policy; and
- entering into a contract with Iron Mountain to ensure all back up media is stored securely off-site.



27. The following actions remain outstanding and will be taken forward by the Scottish Government:

- development of a back-up test restore schedule for 2008/09; and
- discussions with the Scottish Government's ISIS to take forward and standardise business continuity planning.



Performance Management

28. 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.
29. 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.

Efficient Government

30. This was the last year of the three-year efficiency programme. In 2007/08, Communities Scotland achieved savings of £3 million against a target for efficiency savings agreed with the Scottish Government of £10.7 million. The main contribution to savings was through improvements in management and administration in the Central Heating Programme. The Affordable Housing Investment Programme was set a target of £9 million to reduce the average amount of grant provided per housing unit. No savings were achieved, however, due to increased land costs and the number of small projects on difficult sites. Over the three years the Agency achieved overall savings of £10.7 million, falling short of the target of £16.1 million.

Performance Management

31. Communities Scotland was set ten ministerial targets in 2007/08. The targets included funding a further 8,000 affordable homes by the end of March 2008, of which at least 1,800 were to be targeted at helping first time buyers on modest incomes get onto the property ladder, working with social landlord organisations to ensure that they reduced the number of houses failing to meet the Scottish Housing Quality Standard by at least 25,000, and ensuring central heating systems were installed or repaired in 10,000 homes and that insulation measures were installed in 10,000 homes by March 2008.
32. Communities Scotland met eight out of ten targets, including two which were met slightly after year end and one where confirmation is awaited. One target was missed and one was overtaken by policy developments. This was a considerable achievement for the Agency at a time of significant organisational change. The management commentary section of Communities Scotland's financial statements gives details of performance against ministerial targets. For example, Communities Scotland funded 1,878 units for first time buyers on modest incomes.



Closing Remarks

Transition

33. On 1 April 2008 activities undertaken by Communities Scotland's Regulation and Inspection Division transferred to a new agency of the Scottish Government, the Scottish Housing Regulator. Communities Scotland's remaining activities were transferred to the core Scottish Government. A Transition Project Board was accountable for successful delivery of the new integrated organisational structure in the core Scottish Government, the creation of the Scottish Housing Regulator; and the wind-up of Communities Scotland.

34. The new Housing and Regeneration Directorate within Scottish Government combines housing and regeneration policy making and delivery and is tasked with taking forward the proposals set out in Firm Foundations, the Scottish Government's discussion paper on housing and regeneration. The new Scottish Housing Regulator takes on the challenge of ensuring Scotland's social housing tenants continue to receive good standards of service from their landlords.