

Scottish Building Standards Agency

**Final Report and Report to those charged with Governance on
the 2007/08 Audit**



30 October 2008



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the 2007/08 Audit**

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Executive Summary

Introduction

In 2007/08 we looked at the key strategic and financial risks being faced by the Scottish Building Standards Agency (SBSA). 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 SBSA received £1.851 million in funding from the Scottish Government during the year to 31 March 2008 (2006/07: £1.676 million). Net operating costs for 2007/08 were £1.968 million (2006/07: £1.778 million). The net book value of assets at 31 March 2008 was £0.349 million with additions of £0.008 million during the year. There were no disposals during the year. Commentary on the financial performance of the agency is made in the financial position section of this report.

The report to those charged with governance of SBSA under ISA260 is also disclosed in the financial position section of this report.

Financial Statements

We have given an **unqualified opinion** on the financial statements of the SBSA 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 SBSA was set ten Ministerial targets in 2007/08. Five of these have been fully achieved, two are on target and three were achieved in part.

Report to those charged with governance on the 2007-08 audit (ISA 260)

International Standard on Auditing (ISA) 260 requires auditors to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. In our view, there are no issues that require to be brought to your attention regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties.



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 SBSA 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.

Looking forward

The final part of our report notes that the functions carried out by SBSA during 2007/08 will be carried out as part of the Scottish Government's Directorate for the Built Environment in future. The assistance and co-operation given to us by Board members and staff during our audit is gratefully acknowledged.

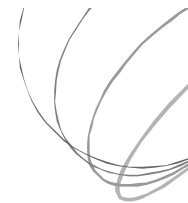


30 October 2008



Introduction

1. This report summarises the findings from our 2007/08 audit of the Scottish Building Standards Agency (SBSA). The scope of the audit was set out in our Audit Plan, which was submitted to management 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. In the Audit Risk and Analysis Plan, we identified six main audit issues and risks which directed our audit procedures. From our audit work we can conclude that these issues and risks are being satisfactorily managed by the SBSA.
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 SBSA 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 SBSA 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 SBSA 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 Management Commentary with the financial statements, and
 - 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 Accountable Officer to obtain assurances on systems of internal control, and
 - assessing whether disclosures in the statement are consistent with our knowledge of the SBSA.

Overall conclusion

7. We have given an unqualified opinion on the financial statements of the SBSA for 2007/08.
8. As agreed the unaudited accounts were provided to us on 3 July 2008 supported by a comprehensive working paper package. The good standard of the supporting papers and the timely responses from SBSA staff allowed us to conclude our audit within the agreed timetable.

Financial Position

Outturn 2007/08

9. The SBSA is required to work within the resource budget set by the Scottish Government. The SBSA's operating cost statement for the year records net operating costs of £1.968 million (2006/07:



£1.778 million). The increase from 2006/07 relates largely to additional expenditure on staff costs due to an increase in permanent staff numbers and costs arising from research activities undertaken by the SBSA which were previously funded directly by the Scottish Government. Income received by the SBSA in 2007/08 amounted to £0.033 million (2006/07: £0.013 million). The increase in income is mainly due to a rise in fee income from certification audits which are carried out by the SBSA to establish whether individuals or organisations are competent to become certifiers or certification scheme providers.

Regularity Assertion

10. 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.



Report to those charged with governance on the 2007/08 audit (ISA 260)

Introduction

11. International Standard on Auditing (ISA) 260 requires auditors to report certain matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
12. ISA 260 requires us to highlight:
 - relationships that may bear on our independence and the integrity and objectivity of the appointed auditor and audit staff;
 - the overall scope and approach to the audit, including any expected limitations, or additional requirements;
 - expected modifications to the audit report;
 - management representations requested by us;
 - unadjusted misstatements, other than those that are clearly trivial;
 - material weaknesses in internal control identified during the audit;
 - qualitative aspects of accounting practice and financial reporting, including accounting policies; and
 - matters specifically required by other auditing standards to be communicated to those charged with governance and any other matters that are relevant to the audit.
13. This report sets out for the Accountable Officer's consideration the matters arising from the audit of the financial statements for 2007/08 that require reporting under ISA 260. We are drawing to your attention those matters we think are worthy of note, and so that you can consider them before the financial statements are approved and certified. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. This report has been prepared for the use of Scottish Building Standards Agency (SBSA) and no responsibility to any third party is accepted.



Status of the Audit

14. Our work on the financial statements is now substantially complete.

Matters to be reported to those charged with governance

Conduct and scope of the audit

15. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Audit Plan submitted to management on 19 March 2008, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in March 2007. The issues arising from the audit were discussed with SBSA staff at a meeting on 21 August 2008.

Audit opinion & representations

16. Subject to the satisfactory receipt of outstanding information (paragraph 23) and the final set of accounts for review, we anticipate being able to issue an unqualified auditor's report (the proposed report is attached at Appendix A). There are no anticipated modifications to the audit report.
17. A small error which is immaterial to the accounts as a whole was identified during the audit. Officers in finance propose not to adjust the accounts for this error and we concur on this. If an adjustment had been made for the error, net operating costs would have decreased by £1,000 and net assets would have increased by £1,000.
18. As part of the completion of our audit we seek written assurances from the Accountable Officer on aspects of the accounts and judgements and estimates made. A draft letter of representation under ISA 250 will be provided to the Accountable Officer on receipt of a final agreed set of accounts. This should be returned and signed by the Accountable Officer with the signed accounts prior to the independent auditor's opinion being certified.

Accounting and internal control systems

19. No material weakness in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the accounts.

Matters arising

20. In our view, there are no material issues that require to be brought to your attention regarding the appropriateness of accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties.



21. There has been a small change to accounting policies in note 1.2 Fixed Assets in order to comply with the Financial Reporting Manual, namely a statement that: 'Depreciated historical cost is used as a proxy for current value.'
22. A separate Management Letter covering a number of minor matters affecting Fixed Assets, Payroll and Income is being prepared. All these have been discussed with management and none is sufficiently material to warrant inclusion in this report.

Outstanding Information

23. **Letter of Representation** – As part of the completion of our audit we seek written assurances from the Accountable Officer on aspects of the accounts and judgements and estimates made. A draft letter of representation under ISA 250 will be provided to the Accountable Officer on receipt of a final agreed set of accounts. This should be returned and signed by the Accountable Officer with the signed accounts prior to the independent auditor's opinion being certified.



Governance

Overview of arrangements

24. This section sets out our main findings arising from our review of the SBSA's governance arrangements. This year we reviewed key systems of internal control and internal audit work.
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. Our overall conclusion is that arrangements within SBSA are sound and have operated through 2007/08.

Systems of internal control

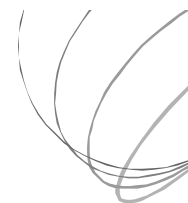
26. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements.
27. SBSA financial transactions are recorded on the Scottish Government Accounting System (SEAS). The Scottish Government external audit team evaluates the key systems within the Government and, to the extent that this evaluation allows, we placed reliance on the internal controls within those systems. Audit Scotland's Scottish Government team has provided an audit clearance letter which offers adequate assurance on all key systems except Payroll which received limited assurance.

Prevention and detection of fraud and irregularities

28. No frauds were identified by the SBSA during 2007-08.

Internal Audit

29. 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 SBSA internal audit function as provided by the Scottish Government Internal Audit Division. In view of the absorption of SBSA into the Scottish Government Core, no audit work was carried out by the Internal Audit Division on SBSA specifically. Internal Audit has however conducted Scottish Government wide reviews of Corporate Governance (including risk management and the impact of Scottish Government wide transition) and Income during the year which offered reasonable and substantial assurance respectively.



Statement on Internal Control

30. The Statement on Internal Control provided by the SBSA's Accountable Officer reflected the main findings from external audit work. This recorded management's responsibility for maintaining a sound system of internal control and set out the SBSA's approach to this.

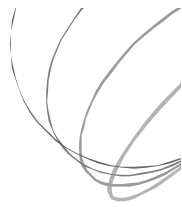


Performance Management

31. 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.
32. 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

33. 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.
34. 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.
35. 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.
36. 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.
37. 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.



Performance Management

38. The SBSA's Corporate Plan 2006-09 outlines ten Ministerial targets set for 2007-08. Five of these have been fully achieved and are outlined below, two are on target and three were achieved in part.

39. The SBSA achieved the following during 2007-08:

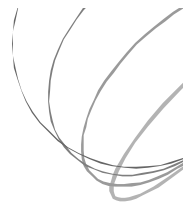
- Developed and promoted a strategy for achieving zero carbon buildings, publishing the 'Sullivan' report in December 2007;
- Improved verification of building standards by conducting eight local authority audits and four follow-up audits;
- Improved the dissemination of information and service to stakeholders;
- Developed and maintained international links to ensure best value and shared knowledge; and
- Improved the efficiency and effectiveness of the SBSA.

40. The SBSA were on target with the following during 2007-08:

- Completion of implementation of the Energy Performance Buildings Directive; and
- Review of the existing standards to reduce noise nuisance and improve means of escape from fire.

41. The SBSA part-achieved the following during 2007-08:

- Completion of the next stage in the strategy for achieving zero carbon buildings by implementing the recommendations of the 'Sullivan' report in order to significantly reduce carbon emissions from buildings;
- Furthering the use of low and zero carbon technologies including micro generation; and
- Increasing compliance with building standards.



Looking Forward

42. The SBSA was re-integrated back into the Scottish Government on 1 April 2008 as part of a new Directorate for the Built Environment and no further sets of accounts will be produced from 2008-09 onwards.



Appendix A – Proposed Independent Auditor’s Report

Independent Auditor’s Report to the Scottish Building Standards Agency, the Auditor General for Scotland and the Scottish Parliament

I have audited the financial statements of the Scottish Building Standards Agency for the year ended 31 March 2008 under the Public Finance and Accountability (Scotland) Act 2000. These comprise the Operating Cost Statement, Balance Sheet, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

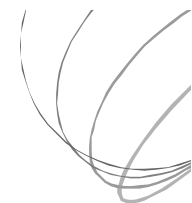
Respective responsibilities of the Agency, Accountable Officer and auditor

The agency and Accountable Officer are responsible for preparing the Annual Report, which includes the Remuneration Report, and the financial statements in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers. The Accountable Officer is also responsible for ensuring the regularity of expenditure and receipts. These responsibilities are set out in the Statement of Agency’s and Accountable Officer’s Responsibilities.

My responsibility is to audit the financial statements and the part of the Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and with International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland.

I report my opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers. I report to you whether in my opinion, the information which comprises the Management Team report and the Management Commentary included in the Annual Report, is consistent with the financial statements. I also report whether in all material respects

- the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers, the Budget (Scotland)



Act covering the financial year and sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000; and

- the sums paid out of the Scottish Consolidated Fund for the purpose of meeting the expenditure shown in the financial statements were applied in accordance with section 65 of the Scotland Act 1998.

In addition, I report to you, if in my opinion, the Agency has not kept proper accounting records, if I have not received all the information and explanations I require for my audit, or if information specified by relevant authorities regarding remuneration and other transactions is not disclosed.

I review whether the Statement on Internal Control reflects the Agency's compliance with Scottish Government guidance and I report if, in my opinion, it does not. I am not required to consider whether this statement covers all risks and controls or to form an opinion on the effectiveness of the Agency's corporate governance procedures or its risk and control procedures.

I read the other information contained in the Annual Report and Accounts and consider whether it is consistent with the audited financial statements. This other information comprises only the performance against corporate objectives section of the Management Commentary and the unaudited part of the Remuneration Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Public Finance and Accountability (Scotland) Act 2000 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Auditor General for Scotland. An audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of expenditure and receipts included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgements made by the Agency and Accountable Officer in the preparation of the financial statements, and of whether the accounting policies are appropriate to the agency's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.



Opinion

Financial statements

In my opinion

- the financial statements give a true and fair view, in accordance with Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers, of the state of affairs of the Scottish Building Standards Agency as at 31 March 2008 and of the net operating cost, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers; and
- information in the Annual Report and Accounts which comprises only the Management Team Report and the Management Commentary is consistent with the financial statements.

Regularity

In my opinion in all material respects

- the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers, the Budget (Scotland) Act covering the financial year and sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000; and
- the sums paid out of the Scottish Consolidated Fund for the purpose of meeting the expenditure shown in the financial statements were applied in accordance with section 65 of the Scotland Act 1998.

October 2008

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