Scottish Commission for the Regulation of Care

Report on the 2009/10 Audit to the Scottish Commission for the Regulation of Care and the Auditor General for Scotland

October 2010

AUDIT SCOTLAND

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Key messages

In 2009/10 we looked at the key strategic and financial risks being faced by the Scottish Commission for the Regulation of Care (Care Commission). We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

Financial statements

We have given an unqualified opinion on the financial statements of the Care Commission for 2009/10. 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.

Financial position and use of resources

Scotland's economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight. It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known. Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available. In the current economic climate difficult decisions will have to be made across the public sector about priority spending programmes.

The immediate impact on the Care Commission of public sector constraints is mitigated to some extent by its abolition and transfer of functions to two new bodies with effect from 1 April 2011. The majority of the Care Commission's existing functions will transfer to Social Care and Social Work Improvement Scotland (SCSWIS) and the independent healthcare functions will transfer to the Healthcare Improvement Service (HIS). Notwithstanding this, there remains a need for the Care Commission to maintain tight control over its use of resources during 2010/11 and to review its spending plans in the short term as part of the budget setting arrangements for SCSWIS.

The Care Commission recorded a surplus of £0.2 million in 2009/10. This is the difference between the net operating costs for the year of £19.0 million and the funding received from the Scottish Government of £19.2 million. The Care Commission operated within the budget limits set by the Scottish Government.

Scottish Ministers have approved gross expenditure of £31.2 million and agreed a resource budget of £30.9 million for 2010/11. The approved funding allows the Care Commission to operate a budget deficit of £0.3 million in 2010/11, on the basis that this will result in a General Reserve balance of £0.2 million which will be transferred to SCSWIS.

Governance and accountability

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 Care Commission 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.

Performance

The corporate plan for 2009-11 was published in March 2009. The plan focuses on three strategic aims and includes 25 objectives and 13 Key Performance Indicators to measure the achievement of these. Of the 25 objectives set, 2 exceeded and 23 met the objective.

The Care Commission has not updated its corporate plan for the period up to 2011, although a revised business plan setting out its work programme and priorities during 2010/11and the transition to SCSWIS and HIS has been agreed with the Minister. This period of significant change for the Care Commission may present risks to staff morale and retention, which will need to be managed to ensure business continuity. The Care Commission has robust systems in place for the identification and management of these risks.

Looking forward

The final part of our report notes some key risk areas and issues for the Care Commission going forward, including a number of national issues which affect all public sector bodies. These include the need for continuing efficiencies in the face of future funding constraints and managing business continuity risks associated with the transition to SCSWIS.

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

Audit Scotland

October 2010

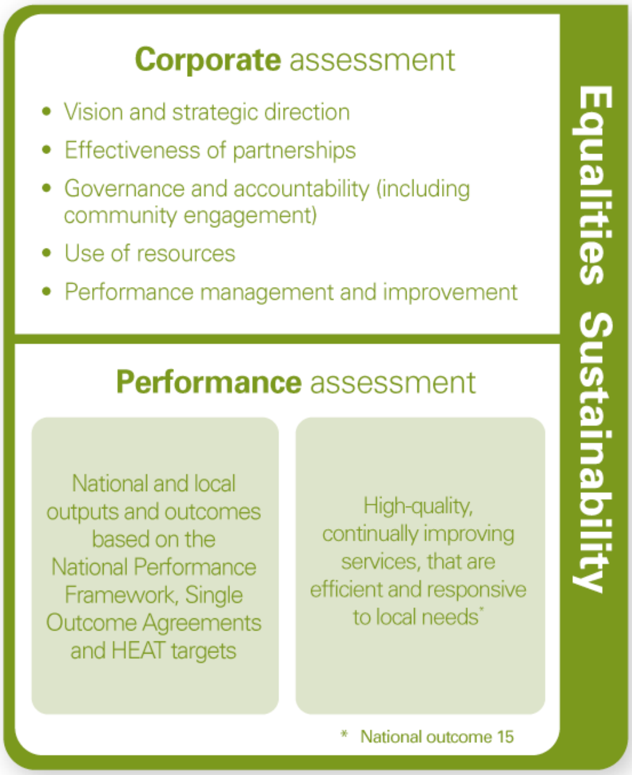
Introduction

1. This report summarises the findings from our 2009/10 audit of the Care Commission. The scope of the audit was set out in our Audit Plan in accordance with the Code of Audit Practice, which was presented to the Audit Committee on 15 March 2010. 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. Our audit work for this year has been completed with no significant issues arising.

3. Best value duties apply across the public sector and are a formal duty on all accountable officers. Audit Scotland has adopted a generic framework for the audit of best value across the public sector and this has been further developed during 2009/10 with the completion of its bank of best value Toolkits which, although primarily designed for audit use, are available to all public bodies for reference.

Exhibit 1: Framework for a best value audit of a public body



4. A linked development here has been the Scottish Government's work to refresh its 2006 best value Guidance for Public Bodies. This latter initiative, due for issue later in 2010, will result in clearer guidance to public bodies, and particularly those in the Central Government and Health sectors, on securing continuous improvement in performance, with due regard to the balance between cost and quality.

5. Throughout this report we comment on aspects of the Care Commission's arrangements in this area. Our comments are made on the basis of information made available in the course of the annual audit. We do not make an overall best value judgement because we do not yet have enough evidence to conclude on all relevant areas. Our intention is to build up the corporate assessment over time. This report represents a further step towards that goal.

6. Another building block for our assessment of best value is the national study programme carried out by Audit Scotland on behalf of both the Auditor General for Scotland and the Accounts Commission. Where these have a bearing on the activities, risks or performance of the Care Commission, we make reference to these reports in this document. Full copies of the study reports can be obtained from Audit Scotland's website, www.audit-scotland.gov.uk.

7. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by management and Board members of the Care Commission during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website.

Financial Statements

8. In this section we summarise key outcomes from our audit of the Care Commission's financial statements for 2009/10 and the 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

9. We audit the financial statements and give an opinion on:

   - whether they give a true and fair view of the financial position of the Care Commission 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 Overview of the Care Commission (sections: Who we are, What we do and The legal background); Principal risks and uncertainties; Employees; Equality and Diversity; and Financial Review, included within the financial statements
   - the regularity of the expenditure and receipts.

10. 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 the Care Commission.

Overall conclusion

11. We have given an unqualified opinion on the financial statements of the Care Commission for 2009/10.

12. As agreed the unaudited accounts were provided to us on 30 July 2010, supported by a comprehensive working paper package. We concluded our audit within the agreed timetable and provided our opinion to the Audit Committee on 18 October 2010 as timetabled.

Issues arising from the audit

13. As required by auditing standards we reported to the audit committee on 18 October 2010 the main issues arising from our audit of the financial statements. There was one issue which needed to be highlighted. The Care Commission has restated the useful lives of a number of assets which were still in use at 31 March 2010. Historic depreciation on these assets has been recalculated and an adjustment made to the accumulated depreciation to adjust it to the revised value. This has resulted in an understatement in the Operating Cost Statement of depreciation by £25.5k.

Regularity

14. 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.

International financial reporting standards (IFRS)

15. UK Government departments and other public sector bodies prepared their accounts in accordance with International Financial Reporting Standards (IFRS) for the first time in financial year 2009/10. The transition arrangements to IFRS required bodies to prepare IFRS shadow accounts for 2008/09, including revised opening balances as at 1 April 2008.

16. During 2009/10 we were required to review the shadow accounts and report on them to the Care Commission by 28 February 2010. The purpose of this exercise was to consider whether the shadow accounts had been properly prepared and report any matters that might prevent them forming a reliable basis for the first set of IFRS based accounts in 2009/10.

17. The shadow accounts and supporting documentation for the 2008/09 financial year were submitted by the Care Commission for review by the deadline date of 28 February 2010. There were no significant issues arising from our review of the shadow accounts for 2008/09.

Use of Resources

18. Sound management and use of resources (people, money and assets) to deliver strategic objectives is a key feature of best value. This section sets out our main findings from a review of the Care Commission's

- financial position
- financial management.

Financial Position

Outturn 2009/10

19. In 2009/10 the Care Commission's net operating costs were £19.0 million against funding from the Scottish Government of £19.2 million resulting in a surplus of £0.2 million.

20. The Care Commission is required to work within the resource budget set by the Scottish Government. For 2009/10 the budget allocated to the Care Commission from the Scottish Government was £31.1 million, comprising £18.7 million from grant in aid and £12.4 million from fees. In addition to this the Care Commission incurs expenditure in respect of the shared services it provides and receives income from recharges to the bodies receiving those services. The Care Commission also receives other grants from the Scottish Government. Gross expenditure for the year totalled £32.5 million, of which £1.5 million related to expenditure that was recharged or funded from other grants. The remaining £31.0 million comprised staff costs of £24.8 million and other operating expenditure of £6.2 million.

21. During 2009/10 the Care Commission received grant in aid of £18.7 million and income from fees of £12.3 million enabling the Care Commission to operate within the budget limits set by the Scottish Government – see exhibit 2 below:

Exhibit 2 – Performance against resource budget 2009/10 (£ million)

Limits	Budget	Actual Outturn	Difference
Operating	31.1	31.0	(0.1)
Capital	nil	nil	nil
Total	**31.1**	**31.0**	**(0.1)**

Scotland’s public finances

22. The Auditor General’s report on *Scotland’s public finances, published in November 2009,* contained an overview of the financial environment in Scotland and the pressures and challenges facing the public sector. The aim of this report was to help to inform the debate on the future of public finances in Scotland. The key messages from this report were:

Extract from Auditor General’s report *Scotland’s public finances*

The public sector is coming under the greatest financial pressure since devolution.

- Scotland’s economy is in recession and the public sector is under the greatest financial pressure since devolution ten years ago. It will be very challenging to maintain current levels of public services and meet new demands when resources are tight.
- The Scottish Government and the wider public sector need to work together to develop better activity, cost and performance information. This information is needed to enable informed choices to be made between competing priorities, and to encourage greater efficiency and productivity.

The Scottish Government faces significant challenges in balancing the budget while also delivering on its commitments and meeting increasing demands for public services.

- It remains unclear what impact the current recession will have beyond 2010/11. The Scottish budget is likely to reduce in real terms but the full extent of this is not yet known.
- In many cases, the public sector uses income from various sources to pay for services. Income levels anticipated before the recession are unlikely to be realised, reducing the amount available to spend.
- The Scottish public sector faces significant challenges in balancing its budget while also delivering on its commitments. Changes in Scotland’s population and rising unemployment rates will increase demand for public services.
- Two per cent efficiency savings will not be sufficient beyond 2011 to bridge the gap between public spending and the smaller budget available.

In the current economic climate difficult decisions will have to be made about priority spending programmes.

- The Scottish Government’s annual budget is largely developed on an incremental basis which involves making adjustments at the margin to existing budgets. This approach is not suitable for budgeting in a financial downturn because it does not easily allow informed choices to be made about priorities, based on robust information about activity, costs and performance.
- The Scottish Parliament has an important role in scrutinising the government’s spending plans. Better information linking spending to costs, activities and service performance, and a rolling programme of performance reviews, would support the Scottish Parliament in fulfilling this role.

23. The immediate impact on the Care Commission of public sector constraints is mitigated to some extent by its abolition and transfer of functions to two new bodies with effect from 1 April 2011. The majority of the Care Commission's existing functions will transfer to Social Care and Social Work Improvement Scotland (SCSWIS) with the exception of the independent healthcare functions which transfer to the Healthcare Improvement Service (HIS). Notwithstanding this, there remains a need for the Care Commission to maintain tight control over its use of resources during 2010/11 and to review its spending plans in the short term as part of the budget setting arrangements for SCSWIS. The Scottish Government has informed the Care Commission that it is required to take a share in a general reduction in the funding available to scrutiny bodies in 2010/11.

Financial sustainability and the 2010/11 budget

24. Scottish Ministers have approved gross expenditure of £31.222 million and agreed a resource budget for the Care Commission of £30.882 million for 2010/11, as set out below:

Exhibit 3 – 2010/11 Resource Plan (£ million) a further

Limits	Budget
	£million
Grant in Aid	18.478
Other operating income	12.404
Total	**30.882**

25. The Care Commission is expected to achieve efficiency savings in 2010/11 and grant in aid will not be uplifted for general inflation. The Care Commission's 2010/11 budget, which was agreed by the Board and Ministers, forecasts a deficit of £0.340 million for 2010/11. This budget was set to achieve a £0.2 million transfer of reserves to SCSWIS based on balances calculated under UK GAAP. However, the implementation of IFRS has reduced the 2010/11 opening reserve balance to a deficit of £55k. Although the Care Commission have already identified efficiency savings of £150k this still leaves a further £105k of savings to be found in order to achieve the £0.2 million reserve balance by 31 March 2011.

26. Achieving this target will present a significant challenge for the Care Commission. We will monitor progress in this area throughout our 2010/11 audit.

National Studies

27. Audit Scotland are currently developing a more flexible approach to its national performance audit programme. Our focus continues to be on value for money, economy, efficiency, effectiveness and on governance and accountability. We have developed the following five key themes to help underpin our programme:

- **Managing reductions in public sector budgets:** in recognition of the cost pressures facing public services, and building on and developing issues arising from our reports on Scotland's public finances and Improving public sector efficiency.
- **Investment**: looking at accountability for the use of public funds; examining the scope for reducing cost overruns and improving project management; and assessing whether investing in services with early intervention leads to better outcomes and savings in the longer term.
- **Partnership working:** examining the value for money of partnership working and whether this way of planning and delivering services is making a real difference.
- **User focus and personalisation:** looking across organisational boundaries and identifying cost-effective ways of delivering services which better suit people's needs at the same time as delivering savings.
- **Environmental auditing:** reviewing how Scotland is responding to the challenges of reducing carbon emissions and adapting to climate change.

Governance and Accountability

28. High standards of governance and accountability, with effective structures and processes to govern decision-making and balanced reporting of performance to the public, are fundamental features of best value. This section sets out our findings arising from a review of the Care Commission's arrangements.

29. Increasingly services are being delivered across the public sector through partnership working, sometimes involving complex governance and accountability arrangements. Best value characteristics also include effective partnership working to deliver sustained improvements in outcomes.

Overview of arrangements

30. This year we reviewed:
    - key systems of internal control
    - internal audit
    - arrangements for the prevention and detection of fraud and irregularity, including standards of conduct.

31. Our overall conclusion is that arrangements within the Care Commission are sound and have operated through 2009/10.

Systems of internal control

32. 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 their annual report for 2009/10 Scott-Moncrieff, the internal auditors, provided their opinion that based on the internal audit work undertaken during the year, the Care Commission has a framework of controls in place that provides reasonable assurance regarding the effective and efficient achievement of the Commission's objectives and the management of risks.

33. As part of our audit we reviewed the high level controls in a number of the Care Commission's systems that impact on the financial statements. This audit work covered a number of areas including
    - main accounting system
    - accounts receivable
    - accounts payable
    - cash and cash equivalents
    - payroll.

34. Our overall conclusion was that key controls were operating effectively and that the Care Commission has adequate systems of internal control in place.

Statement on Internal Control

35. The Statement on Internal Control provided by the Care Commission'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 Care Commission's approach to this.

Internal Audit

36. 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 2009/10 audit we assessed whether we could place reliance on the Care Commission's internal audit function. We concluded that Scott-Moncrieff operates in accordance with the Government Internal Audit Manual and therefore placed reliance on their work in number of areas during 2009/10, as we anticipated in our annual audit plan. This included reliance on aspects of internal audit's systems work to avoid duplication of effort.

Prevention and detection of fraud and irregularities

37. The Care Commission has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption, including policies and codes of conduct for staff and Board members covering gifts and hospitality.

National Studies

38. In September 2010 Audit Scotland published a national study on *The Role of Boards* which will be relevant to the Care Commission. Boards play a crucial role in ensuring that governance standards are maintained in public sector organisations. Feedback relating to the Care Commission will be provided in due course where appropriate.

Performance

39. 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. Key features of best value include:

    - setting a clear vision of what the organisation wants to achieve, backed up by plans and strategies to secure improvement, with resources aligned to support their delivery
    - a performance management culture which is embedded throughout the organisation and a performance management framework which is comprehensive and supports the delivery of improved outcomes.

40. In this section we comment on:

    - the Care Commission's corporate plan
    - performance against targets
    - performance management arrangements.

Vision and strategic direction

41. From 1 April 2011 the Care Commission will be abolished and its responsibilities will be transferred to two new scrutiny bodies which will be established as Non Departmental Public Bodies. The majority of functions will transfer to Social Care and Social Work Improvement Scotland (SCSWIS) and the independent healthcare functions will transfer to the Healthcare Improvement Service (HIS).

42. Given these circumstances, the Care Commission has not updated its corporate plan for the period up to 2011, although a revised business plan setting out its work programme during 2010/11 and the transition to SCSWIS and HIS has been agreed. This sees a significant roll forward of the priorities from 2009/10, with a small number of changes made in order to free up capacity for contributing to the development required in shaping the future organisations whilst continuing to contribute to current business of the Care Commission.

43. Despite imminent organisational reforms, the core activities of the Care Commission are unlikely to change in the short term.

Performance overview

44. The Corporate Plan for 2009/10 set the Care Commission 25 objectives and identified 13 Key Performance Indicators (KPIs) to measure the achievement of these. Of the 25 objectives set, 2 exceeded and 23 met the objective.

45. Performance against targets and KPIs are analysed in the Annual Report accompanying the Care Commission's accounts. During the year the Care Commission achieved a high degree of success in meeting corporate targets. The Care Commission is focused on improving care services through regulation and is continually seeking ways to improve the way it regulates. During 2009/10 the Care Commission published 'Making the Grade?' a report on the first full year of grading results. The Care Commission's Annual Report notes that introducing grading has made a major impact, with most care services (80%) achieving grades of 4 (good), 5 (very good) or 6 (excellent). Other key achievements during 2009/10 included: increased co-operation and liaison with other inspection bodies to improve the efficiency and effectiveness of the overall inspection regime; introduction of a new style of inspection report; and establishment of a shared risk assessment process which produces an Assurance and Improvement Plan (AIP) for all 32 local authorities, following joint work in Local Authority networks.

Performance management

46. The Care Commission's Board regularly reviews performance against the corporate plan through quarterly performance reports. The reports are discussed in Board meetings and action taken to resolve any issues.

Risk management

47. The Board has put in place robust systems for the identification and management of risk with the adoption of a strategic risk register, a corporate risk management policy and procedures for addressing risks that are identified. An annual risk management workshop is held to review the top strategic risks for the body. This involves Audit Committee members and a cross-section of Care Commission managers.

48. The main risk affecting the Care Commission relates to change management issues arising from the impending transfer of the Care Commission's functions to SCSWIS. The Care Commission is actively involved in discussions with the Scottish Government and other bodies affected by this on how to take forward these changes.

49. This period of significant change for the Care Commission may present risks to staff morale and retention, which will need to be managed to ensure business continuity. The Care Commission is managing these risks and is working with the Scottish Government and other relevant bodies to minimise any impact on performance delivery. The Board are aware of the increased obligations placed on it to ensure its performance management and scrutiny is effective as a result of changes in prioritisation of the Business Plan. We will monitor these arrangements as part of our 2010/11 audit.

Improving public sector efficiency

50. The Audit Scotland report *Improving public sector efficiency* was published on 25 February 2010. It provides a position statement on the first year (2008/09) of the Efficient Government Programme (the Programme), which aims to deliver £1.6 billion efficiency savings over the three years to 2010/11. It also gave an update on how the Scottish Government and public bodies have addressed the recommendations made in the 2006 report about the previous efficiency programme.

51. The report found that Scottish public bodies reported more efficiency savings than the Government's two per cent target. But there are serious financial challenges ahead – the biggest since devolution – and making the required savings through efficiency will become increasingly difficult.

52. The report recommended that to deal with reduced future funding and increase savings public bodies need to consider fresh approaches to improving efficiency and productivity. They must take a more fundamental approach to identifying priorities, improving the productivity of public services, and improving collaboration and joint working.

53. The drive to improve efficiency and productivity is not just an exercise for managers and service providers. It requires strong leadership and engagement from the very top of public bodies. Leaders and senior decision-makers within an organisation have a responsibility to check, challenge, monitor and support their organisations in delivering efficiency and productivity improvements. The report's recommendations highlighted areas that public bodies' key decision makers should look at to assess their organisation's development and to challenge existing arrangements (see below):

Extract from Audit Scotland report *Improving public sector efficiency*

In order to improve the delivery of efficiency savings public bodies should:

- ensure they have a priority-based approach to budgeting and spending
- continue to improve collaboration and joint working, overcoming traditional service boundaries
- consider using alternative providers of services, if these providers can improve the efficiency, productivity or quality of services
- improve information on costs, activity, productivity and outcomes, including setting baselines to measure performance against
- give greater urgency to developing benchmarking programmes
- maintain the momentum of activities and initiatives to improve purchasing and asset management and extend shared services
- ensure there is a joined-up approach to efficiency savings across the public sector, avoiding duplication
- ensure that plans are in place to deliver savings, clearly setting out what action will be taken, the level of savings to be delivered and how these will be measured
- strengthen the involvement of front-line staff, service providers and users in redesigning public services
- reduce reliance on non-recurring savings to meet financial targets and generally use these as part of a wider and longer term strategy
- report efficiency savings consistently.

54. To support these high-level recommendations, Audit Scotland, the Northern Ireland Audit Office and the Wales Audit Office have drawn on their combined experience to develop a detailed good practice checklist. The checklist is intended to promote detailed review and reflection and, if necessary, a basis for improvement. We recommend that those responsible for leading efficiency and improvement work should consider assessing themselves against each question, and recording the results.

55. As part of the overall funding settlement agreed by the Scottish Government the Care Commission is expected to achieve a General Reserve balance of £0.2 million by 31 March 2011. The Care Commission is currently forecasting a budget deficit and efficiency savings of £150k have been identified to offset this, however a further £105k of savings remain to be identified if the £0.2 million reserve balance target is to be met. These will be challenging targets for the Care Commission to achieve.

56. The Care Commission has highlighted the following risks to achieving financial balance:

- legal costs associated with both Rosepark fatal accident enquiry and another significant ongoing court case
- costs associated with the set up SCSWIS as these cannot be fully contained within the Care Commission's budget. Negotiations are ongoing with the Sponsor Department to agree a framework for managing associated costs.

57. We will continue to monitor the financial position and the actions taken by the Care Commission to manage these risks.

Looking Forward

58. The Care Commission faces a number of challenges in 2010/11, which include:

- **Efficiencies and future funding** - Scottish public bodies reported more efficiency savings than the Government's two per cent target in 2008/09, but there are serious financial challenges ahead – the biggest since devolution – and making the required savings through efficiency will become increasingly difficult. To deal with reduced future funding and increase savings fresh approaches to improving efficiency and productivity must be considered, taking a more fundamental approach to identifying priorities, improving the productivity of public services, and improving collaboration and joint working. The Care Commission is required to achieve a General Reserve balance of £0.2 million in 2010/11 as part of the overall funding settlement agreed by the Scottish Government.

- **Ensuring business continuity during the transition to SCSWIS** – The abolition of the Care Commission and the transfer of the majority of functions to SCSWIS with effect from 1 April 2011 poses a risk that key priorities identified in the Business Plan for 2010/11 may not be addressed as capacity is freed up to contribute to the ongoing development of the new scrutiny body. The Care Commission is managing the risks and will need to have mechanisms in place for identifying and responding quickly to any changing circumstances that affect business continuity.