

# Social Work Inspection Agency

Report on the 2009/10 Audit to the Social Work Inspection Agency  
and the Auditor General for Scotland

June 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 Social Work Inspection Agency (SWIA). 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 SWIA 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 SWIA of public sector financial constraints is mitigated to some extent by a combination of its abolition and transfer of functions to a new body (Social Care and Social Work Improvement Scotland (SCSWIS)) with effect from 1 April 2011, and unplanned cost savings arising from staff recruitment difficulties associated with the transition to SCSWIS. Notwithstanding these uncertainties, there remains a need for SWIA to maintain a tight control over its use of resources during 2010/11 and to review its spending plans in the short term to ensure the best possible budget setting arrangements for SCSWIS.

In 2009/10 SWIA achieved a net under spend of £0.503 million. This is the difference between the net operating costs for the year of £3.897 million and the funding received from the Scottish Government of £4.400 million. SWIA operated within the budget limits set by the Scottish Government for capital expenditure and operating expenditure, and met its efficiency saving targets, mainly as a result of staff cost savings. For 2010/11, Scottish Ministers have agreed a resource budget for SWIA of £4 million, but this is likely to be reduced in the autumn budget revision due to continuing problems in recruiting and retaining staff.



## **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 SWIA 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**

SWIA has completed its rolling programme of full inspections of social work services in Scottish councils and has published an overview report bringing together key findings across Scotland. It has also completed a review of its inspection methodology, and is moving towards a more risk-based and targeted approach based on needs assessment and self evaluation. It is also progressing work on thematic inspections, and is participating in work with other scrutiny bodies to better co-ordinate and streamline scrutiny activity and achieve greater effectiveness.

This period of significant change for SWIA presents risks to staff morale and retention, which will need to be managed to ensure business continuity. SWIA has robust systems for the identification and management of risk in place to support the management of these risks.

## **Looking forward**

The final part of our report notes some key risk areas and issues for SWIA going forward, including some 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 SWIA officials and staff during our audit is gratefully acknowledged.



**June 2010**



# Introduction

1. This report summarises the findings from our 2009/10 audit of SWIA. 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 17 February 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. 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 SWIA, 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](http://www.audit-scotland.gov.uk).
6. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by management and staff of SWIA during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website.



# Financial Statements

7. In this section we summarise key outcomes from our audit of SWIA 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

8. We audit the financial statements and give an opinion on:
  - whether they give a true and fair view of the financial position of SWIA and its expenditure and income for the period in question
  - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
  - the consistency of the information which comprises the Introduction by the Accountable Officer, the Management Commentary, the Statement on Internal Control and the unaudited part of the Remuneration Report, with the financial statements
  - the regularity of the expenditure and receipts.
9. 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
  - assessing whether disclosures in the statement are consistent with our knowledge of SWIA.

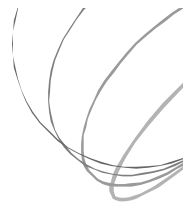
## Overall conclusion

10. We have given an unqualified opinion on the financial statements of SWIA for 2009/10.
11. As agreed the unaudited accounts were provided to us on 30 April 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 26 May 2010 as timetabled.

## Issues arising from the audit

12. As required by auditing standards we provided a report to the Audit Committee on 26 May 2010 which summarised the main issues arising from our audit of the financial statements. There were no





significant issues that needed to be highlighted, and the Audit Committee recommended the accounts for approval.

## Regularity

13. 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)

14. 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.
15. During 2009/10 we were required to review the shadow accounts and report on them to SWIA 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.
16. The shadow accounts and supporting documentation for the 2008/09 financial year were submitted by SWIA for audit 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

17. 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 SWIA:

- financial position
- financial management.

## Financial Position

### Outturn 2009/10

18. SWIA is required to work within its resource budget set by the Scottish Government. In 2009/10 SWIA's net operating costs were £3.897million against a reduced final budget from the Scottish Government of £4.4 million, resulting in an under spend against budget of £503,000. This under spend arose from reduced employment costs due to difficulties in recruiting and retaining staff during the year. Overall, SWIA operated within the resource budget limits set by the Scottish Government for cash expenditure and non cash costs – see exhibit 2 below:

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

Limits	Reduced Budget	Actual Outturn	Difference
Operating	£4.400m	£3.897	0.503
Capital	nil	nil	nil
<b>Total</b>	<b>£4.400m</b>	<b>£3,897</b>	<b>0.503</b>

19. SWIA's balance sheet at 31 March 2010 records a net liability position of £239,000 due mainly to outstanding creditor balances at year end. The going concern basis of the accounts is not affected by this situation due to continued funding from the Scottish Government, appropriate disclosure to that effect is made in the accounts.

## Scotland's public finances

20. 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.

21. The immediate impact on SWIA of public sector financial constraints is mitigated to some extent by a combination of its abolition and transfer of functions to a new body (Social Care and Social Work Improvement Scotland (SCSWIS)) with effect from 1 April 2011, and unplanned cost savings arising from staff recruitment difficulties associated with the transition to SCSWIS. Notwithstanding these uncertainties, there remains a need for SWIA to maintain a 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.



## Financial sustainability and the 2010/11 budget

22. Scottish Ministers have agreed a resource budget for SWIA of £4.00 million for 2010/11, as set out below:

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

<b>Limits</b>	<b>Budget</b>
Operating	4.000
Capital	Nil
<b>Total</b>	<b>4.000</b>

23. Due to continued difficulties in recruiting and retaining staff, SWIA is anticipating an under spend against its 2010/11 budget. Discussions to reduce the budget are currently taking place with the Scottish Government, with an adjustment likely as part of the autumn budget revisions.
24. 2010/11 is the last year of SWIA as an independent body. With effect from 1 April 2011 it will be disbanded and its functions and those of the Care Commission and elements of Her Majesty's Inspector of Education (HMIE) will be delivered by a new body, the SCSWIS. The financial and administrative arrangements for the new body, including budgetary provisions and scope of operations, are currently being discussed with the Scottish Government.
25. Notwithstanding the financial and operational uncertainties surrounding its future role, SWIA is still required to achieve efficiency savings of 2% in 2010/11 as part of the overall funding settlements agreed by the Scottish Government for the period 2009/10 to 2011/12. In addition, SWIA's budget for 2010/11 has been reduced by a £0.550 million (12% saving) as part of the Scottish Governments' transfer of scrutiny resources to frontline services. These savings are likely to be achieved as a result of reducing employment costs arising from continuing difficulties in recruiting and retaining staff due to the likely re-location of SWIA operations following its transition to SCSWIS. In these circumstances, the short term impact on SWIA of public sector financial constraints is, uniquely, limited. Nevertheless, SWIA will need to maintain tight controls over its use of resources during 2010/11 in order to help inform budget setting for SCSWIS.

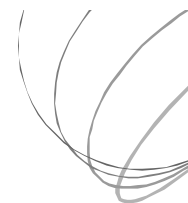
## National Studies

26. Audit Scotland published a national study on procurement relevant to SWIA's use of resources.



## **Improving public sector purchasing**

27. This report was published on 23 July 2009 and provided a position statement on progress made by the Public Procurement Reform Programme, which aimed at improving purchasing practice and making savings of about three per cent a year.
28. The report finds that the public sector in Scotland is improving its purchasing and has estimated it has saved a total of £327 million in the first two years of the Programme, which has cost £61 million so far to implement.
29. Because of the public sector's size and combined purchasing power, there is potential for it to buy goods and services more efficiently and deliver more significant savings through increased collaboration and better management. There has been progress in recent years but it has varied across the country and been slower than planned.
30. The report recommended that the use of collaborative contracts in the public sector should increase. These are a key feature of the Programme, but are being developed more slowly than expected. The health sector has been the most successful in this, introducing 150 new contracts and saving £54 million in the two years to 2007/08. Public bodies also need to ensure that staff have the appropriate skills and that better information and management systems are in place to facilitate more effective purchasing.
31. Audit Scotland will follow up this report with further audit work on public sector purchasing.
32. Whilst recognising that SWIA's purchasing activity is limited and is routed through the SG EaseBuy system, there remains a need to ensure it complies with best practice in order to maximise value for money, particularly during the current financial constraints.



# Governance and Accountability

33. 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 SWIA arrangements.
34. 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

35. This year we reviewed:
  - key systems of internal control
  - internal audit.
36. Our overall conclusion is that arrangements within SWIA are sound and have operated through 2009/10.

## Systems of internal control

37. 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 Scottish Government Internal Audit Division, the internal auditors, provided their opinion that based on the internal audit work undertaken during the year, there was substantial assurance on the adequacy and effectiveness of the systems of internal controls.
38. As part of our audit we reviewed the high level controls in a number of SWIA systems that impact on the financial statements. This audit work covered a number of areas including budgetary control, staff costs (starters and leavers) and purchases. Our overall conclusion was that key controls were operating effectively and that SWIA has adequate systems of internal control in place.
39. We also rely on assurances received from the auditor of the Scottish Government on work performed on shared systems that operate at SWIA, hosted by the Scottish Government. This approach ensures we are delivering an efficient, co-ordinated audit that avoids unnecessary duplication and expense.



40. The shared systems assurance letter provided by the auditor of the Scottish Government concluded that there was adequate assurance for all systems except payroll and travel and subsistence payments. Adequate assurance is where key controls and procedures are operating to enable reliance to be placed on the system. Limited assurance was provided for the payroll system, and we therefore carried out additional work locally to achieve our audit objectives. With regard to travel and subsistence payments, SWIA has introduced mitigating controls locally which are operating satisfactorily. These issues have no impact on our overall audit opinion on the financial statements.

## **Statement on Internal Control**

41. The Statement on Internal Control provided by SWIA'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 SWIA approach to this.

## **Internal Audit**

42. 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 2008/09 audit we assessed whether we could place reliance on SWIA's internal audit function. We concluded that the Scottish Government Internal Audit Division 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**

43. SWIA has adopted the relevant procedures and guidance contained in the Scottish Public Finance Manual. It 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.



# Performance

44. 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.
45. In this section we comment on:
- SWIA's corporate plan
  - performance against targets
  - performance management arrangements.

## Vision and strategic direction

46. SWIA's principal activity is to carry out independent inspections and reviews of social work services across the Scottish public sector with the objective of improving the quality of services provided. It also provides advice to Scottish Ministers on social work issues. From 1 April 2011 SWIA will be abolished and its functions transferred to a new scrutiny body SCSWIS. The new body will take over the functions of SWIA, the Care Commission and certain child protection services of HMIE, and will be established as a Non Departmental Public Body. Given these circumstances, SWIA 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 is expected to be finalised shortly.
47. Despite impending organisational reforms, the core activities of SWIA are unlikely to change in the short term, although the focus of its inspection work has moved from a cyclical inspection programme to a more targeted and risk-based approach aimed at local improvement.

## Performance overview

48. SWIA's key performance targets are set out in Annex B of its Framework Document and relate mainly to qualitative aspects of its inspection and advisory functions. There are no specific financial targets. However, SWIA has established a number of internal targets under five strategic priorities which feed into achievement of the qualitative targets set by the Scottish Government. Performance against internal targets are analysed in the Annual Report accompanying its accounts.





49. During the year SWIA achieved a high degree of success in meeting corporate targets, albeit some were necessarily changed, deferred or cancelled as result of the impending transfer of SWIA functions to SCSWIS. The final report of its comprehensive review of social work services in Scottish councils was published in September 2009, and an overview report covering findings from these and other reports was published in March 2010. 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; improvements in inspection methodology, resulting in a reduced inspection burden on clients, and; helping councils build a self evaluation capacity for social work services, which SWIA will be able to take assurance from as part of its future inspection programme. Thematic inspections with other scrutiny partners are also under way, including inspections of services for people with learning difficulties and prison based social work services, and should report later in 2010.

## Performance management

50. The SWIA Board regularly reviews performance against the corporate plan through quarterly performance reports. The reports are discussed in Board meetings and action taken and reported to resolve any issues.

## Risk management

51. The Board is responsible for identifying, managing and reviewing corporate risks and the effectiveness of actions identified to control these risks. The Board has put in place robust systems for the identification and management of risk, which includes the establishment of a Risk Management Group with responsibility for overseeing risk management processes across SWIA. The Audit Committee also reviews the risk register at each of its meetings as a standing agenda item.
52. The main risk affecting SWIA relates to change management issues arising from the impending transfer of SWIA functions to SCSWIS. SWIA is currently in discussion with the Scottish Government and other bodies affected on how to take forward these changes, and we will monitor progress.
53. A further risk affecting SWIA operations concerns difficulties in recruiting, and retaining, sufficient inspectors of appropriate quality to meet operational requirements, which is a reflection of underlying staffing shortages in this field across the UK. This problem is exacerbated by uncertainty over the functions of SWIA as a result of the transition to SCSWIS.
54. SWIA is managing these risks and is working with the Scottish Government and other relevant bodies to minimise any impact on performance delivery. Nevertheless, there remains a significant risk to business continuity, both in regard to its inspection programme and its internal administrative functions, which we will monitor as part of our 2010/11 audit.



## Improving public sector efficiency

55. 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.
56. 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.
57. 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.
58. 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).

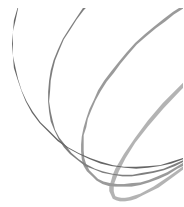
### **Extract from Audit Scotland report *Improving public sector efficiency***

*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.



59. 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.
  
60. As mentioned earlier SWIA is still required to achieve efficiency savings of circa 14% in 2010/11 as part of the overall funding settlements agreed by the Scottish Government for the period 2009/10 to 2011/12.



# Looking Forward

61. Despite it being its last year of operation, SWIA 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. SWIA is still required to achieve efficiency savings of circa 14% in 2010/11 as part of the overall funding settlements agreed by the Scottish Government.
- **Ensuring business continuity during the transition to SCSWIS** – Staff recruitment and retention difficulties arising from the abolition of SWIA and the transfer of functions to SCSWIS with effect from 1 April 2011 pose significant risks for business continuity over the transition period. SWIA is managing the risks and will need to have mechanisms in place that identify and respond quickly to any changing circumstances that affect business continuity.