Key Issues Memorandum

Scotland's Commissioner for Children and Young People

For the year ended 31 March 2011

Gary Devlin
Engagement Lead
T 0131 659 8554
E gary.j.devlin@uk.gt.com

Grace Scanlin
Audit Manager
T 0131 659 8526
E grace.scanlin@uk.gt.com

To the Auditor General for Scotland and the Scotland's Commissioner for Children and Young People (SCCYP)

Grant Thornton UK LLP
1-4 Atholl Crescent
Edinburgh EH3 8LQ

T +44 (0)131 229 9181
F +44 (0)131 229 4560
DX ED428 Edinburgh
www.grant-thornton.co.uk

The purpose of this memorandum is to highlight the key issues affecting the results of SCCYP and the preparation of the financial statements for the year ended 31 March 2011. It is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

We take responsibility for this memorandum, which has been prepared on the basis of the limitations set out in 'The small print' (Section 6).

This is the final year of our appointment as external auditors to SCCYP. We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP

Contents

1 Executive summary

Financial reporting issues	
Audit Opinion	• We intend to give an unqualified opinion on both the financial statements of SCCYP for 2010-11 and on the regularity of transactions undertaken during the financial year.
Financial Statements	• The draft Financial Statements and supporting work papers were presented for audit on the 16th May 2011 and were of a high standard. There are no significant adjustments required to be made to the draft accounts.

Governance	
Corporate and Strategic Planning	• The development of the draft Strategic Plan and underlying corporate planning and performance management processes represent the most significant improvement in corporate governance during our tenure at the Commissioner's Office.

Best Value and Performance	
Delivering Budget Savings	• The Commissioner has been asked to deliver a cash reduction of 9.1% in its budget by 2013-14. This presents a significant challenge for a small organisation. However, SCCYP currently forecast that they can make savings of 7.4% in 2011-12, 1.1% of savings in 2012-13 and then a further 0.6% of savings in 2013-14 which brings total savings to 9.1%. •
Demonstrating outcomes	• The development of outcome measures to demonstrate the impact of the Office remains the most significant challenge for the Commissioner.

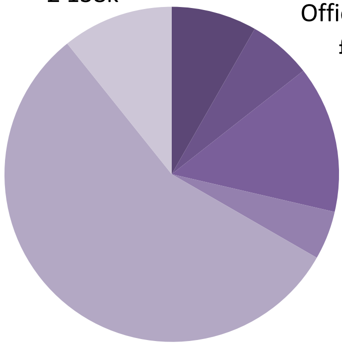
2 Financial Performance

2.1 Financial Statements

	2011 £k	2010 £k
Cash budget for the year	1,350	1,350
Cash expenditure	(1,297)	(1,320)
Cash underspend	**£53k**	**£20k**

Operating Cost Statement
SCCYP reported a net operating cost of £1,319k, which represents a decrease in spending of 2.5% in comparison to 2010. This decrease was achieved through reduced property costs and staff recruitment costs. SCCYP used temporary staff to cover vacancies in the year, to allow flexibility in future staffing structures. A three year budget plan is in place to allow SCCYP to reduce costs by 9.1% by 2013-14.

2.2 Total Expenditure in 2010-11



Expenditure in 2010-11
Staff costs remain the most significant area of expenditure for the Commissioner's office. Staff costs as a proportion of total costs has increased from 50% in 2010 to 55% in 2011. This is due to a higher number of temporary staff being employed for the national consultation exercise, *a Right Blether*.

Expenditure on Promotion & Participation has reduced by £46k in comparison to the prior year, as less expenditure was required in relation to *a Right Blether*.

Less research was carried out during the period due to the strategic focus on the national consultation exercise, although this balance in likely to reverse in 2011-12 to continue to meet the objectives within the Commissioner's Strategic Plan.

3 Key audit issues

3.1 Matters identified at the planning stage

In the conduct of our audit, we have not had to alter or change our audit plan, which we communicated to you in our Audit Approach Memorandum.

Our response to the matters identified at the planning stage are detailed below.

3.2 Accounting System and internal control

We have applied our risk methodology to your audit. This approach allows us to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

During our 2010-11 audit we found no issues with regards to internal controls

3.3 Matters identified at the planning stage and throughout the course of the audit

	Issue	Auditor response [and conclusion]
1	**Financial Position** The economic recession is has resulted in significant cuts in public sector funding. The Commissioner is required to make spending cuts in line with the Scottish Parliamentary Corporate Body's budget submission. This will result in a 15% saving in real terms over the next four financial years. In 2011-12, the Commissioner will be required to deliver a saving of 7.5%, compared to overall SPCB savings of 7.2%. This represents a significant challenge.	We conducted a high level review of the Commissioner's financial management and budgetary control systems as part of our audit, including a review of the report by Internal Audit. The Commissioner has been able to achieve the majority of savings in the 2011-12 budget as a result of removing the post of Chief Officer. The Commissioner has also tailored the budget with no inflationary pay increase for staff, as directed by the SPCB. In line with internal audit findings, we are satisfied that the budgeting framework in place is appropriate and supports the structure and operations of the organisation particularly in light of the current economic climate. **Management response:** The Commissioner has already submitted indicative expenditure costs to SPCB up to 2014 indicating where further savings will be made to achieve the 15% saving in real terms.

<table>
<tr><th></th><th>Issue</th><th>Auditor response [and conclusion]</th></tr>
<tr><td></td><td></td><td></td></tr>
<tr><td>2</td><td>Public Services Reform (Scotland) Act 2010
Sections 31 and 31 of the Act impose new duties on the Scottish Government and listed public bodies to publish information on expenditure and on certain other matters as soon as is reasonably practicable after the end of each financial year. These sections came into force on 1 October 2010.

Disclosure is required to cover the period from 1 October 2010 to 31 March 2011, but where information is readily available, then as a matter of good practice, the information for the whole financial year should be published. The one exception to this is that disclosure on number of individuals earning in excess of £150,000 per year is required for the whole year.

Disclosures are required in respect of:
total expenditure incurred on public relations, overseas travel, hospitality and entertainment, and external consultancy
payments made during the period with a value in excess of £25,000
statement specifying the number of individuals who received remuneration in excess of £150,000 in the financial year
a statement of the steps taken during the financial year to promote and increase sustainable growth through the exercise of its functions
a statement of the steps taken during the financial year to improve efficiency, effectiveness and economy in the exercise of its functions.
It is not necessary to include these disclosures in the annual accounts. Publication on the body's website would be sufficient but it is up to the individual body to decide on the most appropriate method.</td><td>The Commissioner's office is in the latter stages of finalising the information to be published in relation to the Public Services Reform (Scotland) Act 2010. We note that the Commissioner publishes information on expenditure against budget on a monthly basis throughout the year.

Management response:
The Commissioner is confident that he has systems in place to ensure that he will be able to meet the financial reporting requirements under the Public Service Reform (Scotland) Act 2010.

The Commissioner is of the view that it will be a considerable challenge to 'promote and increase sustainable growth through the exercise of its functions', given the nature of the funding of the office.</td></tr>
</table>

	Issue	Auditor response [and conclusion]
3	**Cost of capital** The guidance contained in the 2010-11 FReM at paragraph 11.5.2 states that from 2010-11 onwards, bodies are no longer required to account for the cost of capital within their accounts. In accordance with IAS 8 Accounting policies, changes in accounting estimates and errors, this should be treated as a change an accounting policy. A prior year adjustment will therefore be required along with all necessary disclosures for transparency. The disclosures, in accordance with IAS 8, for a change in accounting policy are as follows: • the nature of the change the reasons why applying the new accounting policy provides reliable and more relevant information • for the current period and each prior period presented, to the extent practicable, the amount of the adjustment for each financial statement line item affected • the amount of the adjustment relating to periods before those presented, to the extent practicable • if retrospective application is impracticable for a particular period, the reason why that is the case, and a description of how, and from when, the change has been applied.	We agreed with the organisation's assertion that the judgement was not material and therefore did not require a prior period adjustment.

4 Financial reporting matters

4.1 Review of key accounting policies

We have reviewed the financial statements and present our view of the key accounting policies below, bringing to your attention in particular any significant judgements and estimates.

Accounting area	Summary of policy	Comment
Accounting convention	• The accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment, financial instruments and inventories where material, at their fair value to the organisation by reference to their current costs.	• The accounting policy is deemed appropriate
Depreciation	• Depreciation is provided at rates calculated to write off the valuation of buildings and other PPE assets by equal instalments over their estimated useful lives which are normally in the following ranges: • Leasehold improvements – over the remaining period of the lease • Furniture and equipment – 5 years • Fixtures and fittings – 5 years • IT Equipment – 3 years.	• The accounting policy is deemed appropriate
Intangible Assets	• Software licences are capitalised as intangible assets and amortised on a straight line basis over the expected life of the license (3 years).	• The accounting policy is deemed appropriate

4.2 Disclosure omissions

Our review found no omissions in the financial statements.

5 Audit adjustments

5.1 Misstatements

Misstatements were identified by Grant Thornton and the following have also been adjusted for:

All adjusted misstatements are set out below.

The auditor is required to communicate all uncorrected misstatements, other than those considered to be clearly trivial, to the entity's management and to request that management corrects them. There were no un-adjusted misstatements in the year.

5.2 Adjusted misstatements

Journal reference	Detail	Balance sheet		Profit and loss	
		Dr	Cr	Dr	Cr
1	Adjustment to capitalise IT Sotware				
	DR Fixed Assets - IT Equipement	2,200			
	CR Operating Expenses - credit card				2,200

6 Governance and performance

6.1 Introduction

All public bodies in Scotland have a duty to secure Best Value and continuous improvement. In 2011-12, the Commissioner will be required to deliver a saving of 7.5%, compared to overall SPCB savings of 7.2%. Arrangements to secure efficiencies and ensure that the organisation is as effective as possible will be key to delivering the Commissioner's draft Strategic Plan.

6.2 Strategic Focus

We view the development of the draft Strategic Plan and underlying corporate planning and performance management processes as the most significant step in improving corporate governance in our tenure as external auditors.

The Strategic Plan was informed by 'a Right Blether', which is now the biggest consultation exercise ever held in Scotland. Over 74,000 responses were received from children across the country. The Commissioner has also engaged with other bodies such as the Scottish Youth Parliament and the Children's Parliament to canvass as many views as possible, giving legitimacy to the organisation's Strategic Aims.

The Strategic Plan includes a range of performance measures, which directly link in to organisational and team objectives. Developing outcome based performance measures, and demonstrating impact remain the most challenging area for the Commissioner to address.

6.3 Delivering efficiencies

In 2011-12, the Commissioner's Office is budgeted to achieve savings of 7.5%, primarily by deleting the post of Chief Officer from the establishment in April 2011. During the year the Commissioner also successfully challenged a rent review which would have seen property costs rise by 30%. The Commissioner continues to review his operations and structures to ensure the organisation remains as effective as possible. This will see a shift in resources from participation to research during the year to meet the objectives within the Strategic Plan. The organisation has prepared a plan to demonstrate how it will deliver savings of 9.1% by 2013-14.

6.4 Improving Public Sector Purchasing

One of the key approaches public sector bodies are taking to respond to the current financial climate is to review procurement processes to ensure that they are achieving the best value. In March 2006, the Scottish Executive published the Review of Public Procurement in Scotland by John McClelland. The report estimated that £740 million savings over the three years to 2008/09 could have been made if public bodies significantly improved how they purchased goods and service.

In July 2009, Audit Scotland produced a report on the implementation of the Public Procurement Reform Programme, which the Scottish Executive launched in response to the McClelland Report. *Improving public sector purchasing* notes that there was no systematic basis for reporting procurement savings. There were also wide variations across public bodies in the quality of purchasing data and practice.

The Commissioner's Office has recently updated the Procurement Policy and we noted only one minor area for improvement. The Commissioner may wish to refer to the Scottish Government's Procurement Journey to ensure that they remain up to date with current best practice.

7 The small print

Purpose of memorandum

This Key Issues Memorandum has been prepared for the benefit of discussions between Grant Thornton and the Accountable Officer (the Commissioner).

The purpose of this memorandum is to highlight the key issues affecting the Commissioner's results and the preparation of the financial statements for the **year ended 31 March 2011**.

This document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

We would point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of the **es** affecting the results of .

This memorandum is strictly confidential and although it has been made available to management to facilitate discussions, it may not be taken as altering our responsibilities to the **es** affecting the results of arising under our audit engagement letter.

The contents of this memorandum should not be disclosed to third parties without our prior written consent.

Responsibilities of the Commissioner and auditors

The Commissioner is responsible for the preparation of the financial statements and for making available to us all of the information and explanations we consider necessary. Therefore, it is essential that the Commissioner confirm that our understanding of all the matters in this memorandum is appropriate, having regard to his knowledge of the particular circumstances.

Clarification of roles and responsibilities with respect to internal controls

The **es** affecting the results of is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance he has done so.

The Commissioner is required to review his Office's internal financial controls. In addition, the Commissioner is required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk.

The Commissioner should receive reports from management as to the effectiveness of the systems they have established as well as the conclusions of any testing conducted by internal audit or ourselves.

We have applied our audit approach to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you.

In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

Independence and robustness

Ethical standards require us to give you full and fair disclosure of matters relating to our independence. We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

In accordance with best practice, we analyse our fees below:

	£
Grant Thornton UK LLP	15,500
Audit Scotland fixed charge	1,200
Total	16,700

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- significant findings from the audit