

Scottish Children's Reporter Administration

Report on the 2007/08 Audit



October 2008



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Executive Summary

Introduction

In 2007/08 we looked at the key strategic and financial risks being faced by the Scottish Children's Reporter Administration (SCRA). We audited the financial statements and we also reviewed aspects of performance management and governance. This report sets out our key findings.

Financial Position

SCRA reported a deficit of £3.032 million in 2007/08. This is the difference between net expenditure for the year of £26.048 million and the funding received from the Scottish Government of £23.016 million. This deficit position for the year is as a result of a combination of factors, including adjustments required to pension scheme contributions as a result of FRS 17 and early retirement costs incurred.

As at Quarter 1 of 2008/09, SCRA is predicting a £493,000 overspend in 2008/09. Of this total, £352,000 can be attributed to overspends on staff costs and unbudgeted information system costs. SCRA intend to manage this position throughout the remainder of 2008/09. SCRA is also required to make 1.5% cash releasing efficiency savings in the next three years' budget settlement. These will be challenging targets for SCRA to achieve and we will continue to keep progress in this area under review.

Financial Statements

We have given an unqualified opinion on the financial statements of SCRA 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.

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 SCRA 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.

Best Value

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. 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. We will consider how SCRA is addressing Best Value as part of our 2008/09 audit.

Performance

In 2007/08 SCRA fully achieved seven out of eleven of their Key Performance Indicators (KPI) for 2007/08. For the remaining four KPI's, SCRA came very close to achieving the desired performance level. SCRA performance against their KPI's was an improvement on the prior year for seven of the indicators. SCRA also maintained equal performance for two of the measures. Only two of the eleven KPI's had a lower achievement rate than the prior year.

Looking forward

The final part of our report notes some key risk areas for SCRA going forward. We highlighted a number of national issues which affect all public sector bodies including SCRA, including the introduction of Scotland Performs; the impact of international financial reporting standards; and the review of data handling arrangement in public bodies across Scotland. We have also highlighted the specific issues that will affect SCRA including the 'Strengthening for the Future' consultation document.

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

Audit Scotland
October 2008



Introduction

1. This report summarises the findings from our 2007/08 audit of SCRA. The scope of the audit was set out in our Audit Plan, which was presented to the Audit Committee on 12 February 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. We have issued a range of reports this year, and we briefly touch on the key issues we raised in these reports. Each report set out our detailed findings and recommendations and SCRA's agreed response.
3. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of SCRA 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 SCRA's 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 SCRA 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 sections, The Children's Hearings System: How It Works, SCRA's Role, The year at a Glance, SCRA's Performance Against Targets in 2007/08, Statistical Report and Management Commentary, included in the annual report 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 SCRA.

Overall conclusion

7. We have given an unqualified opinion on the financial statements of SCRA for 2007/08.
8. Accounts were submitted for audit on 2 June 2008, supported by a comprehensive working paper package. The good standard of the supporting papers and the timely responses from SCRA staff allowed us to conclude our audit within the agreed timetable and provide our opinion to the Audit Committee on 12 August 2008 as timetabled.



Financial Position

Outturn 2007/08

9. SCRA reported a deficit of £3.032 million in 2007/08. This is the difference between net expenditure for the year of £26.048 million and the funding received from the Scottish Government of £23.016 million. This deficit position for the year is as a result of a combination of factors, including adjustments required to pension scheme contributions as a result of FRS 17 and early retirement costs incurred.

2008/09 Budget

10. Scottish Ministers have agreed a resource budget for SCRA of £26.09 million for 2008/09. The total resource budget has been allocated with £23.6 million for operating expenditure and £2.49 million for capital expenditure. The Scottish Government have also provided a commitment to SCRA that they will meet the cost of ongoing capital commitments up to a value of £2.1 million.
11. As at Quarter 1 of 2008/09, SCRA is predicting a £493,000 overspend in 2008/09. Of this total, £352,000 can be attributed to overspends on staff costs and unbudgeted information system costs. Officers have advised that SCRA will seek to manage this position during the remainder of 2008/09. Officers have also advised that the current projected overspend does not factor in the anticipated positive financial impact of SCRA's planned move to the Scots Connect shared ICT service, nor the outcomes of ongoing commercial discussions with Logica (SCRA's current IT hardware, software and support provider under PFI). This is an area we will keep under review in 2008/09.

Issues arising from the audit

12. As required by auditing standards we reported to the Audit Committee on 12 August 2008 the main issues arising from our audit of the financial statements. We were able to report that no unadjusted errors remained in the financial statements, and in our opinion there were no significant issues to report that would have a material impact on the financial statements.

Regularity Assertion

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



Governance

Overview of arrangements

14. This section sets out our main findings arising from our review of SCRA governance arrangements.

This year we reviewed:

- key systems of internal control; and
- internal audit.

15. 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 (see paragraphs 7-9). Our overall conclusion is that arrangements within SCRA are sound and have operated through 2007/08.

Corporate Objectives

16. On 8 October 2008 SCRA published its corporate plan for 2008 – 2011. The plan focuses on three strategic objectives:

- Service Delivery – Driving improvements in practice quality and the management of SCRA casework for children,
- Service Modernisation – Transforming the way SCRA deliver services for children and families, and
- Organisational Transition – Transitioning SCRA to the new single agency for the children's Hearings System.

17. Within each strategic objective SCRA has identified key actions that will required to be carried out. SCRA has also identified key performance indicators to be used to track progress towards achievement of the strategic objectives over the next three years.

18. The delivery of these objectives will be particularly challenging given the risks to achieving the resource budget during the period. This is an area we will keep under review during our appointment.



Systems of internal control

19. 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 2007/08 internal audit stated that their work undertaken during the year did not identify any significant control weaknesses that were considered to be pervasive in their effect on the system of internal control.
20. As part of our audit we reviewed the high level controls in a number of SCRA systems that impact on the financial statements. Our overall conclusion was that key controls were operating effectively.

Internal Audit

21. 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 SCRA's internal audit function. We concluded that the internal audit service, provided by PricewaterhouseCoopers LLP, operates in accordance with the Government Internal Audit Manual and therefore placed reliance on their work in number of areas during 2007/08, as set out in our annual audit plan.

Statement on Internal Control

22. The Statement on Internal Control provided by SCRA'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 SCRA's approach to this.



Performance Management

23. 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.
24. 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

25. 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.
26. 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.
27. 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.
28. 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.
29. 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. We will consider further how SCRA is addressing Best Value as part of our 2008/09 audit.



Efficiency

30. SCRA's target under the Efficient Government Plan, for the three years 2008/09 to 2010/11 has been set at 1.5% per annum, as part of the budget settlement from the Scottish Government. This translates to £1.029 million in cash releasing savings required to be delivered by SCRA during the three years to 2010/11 (£0.341 million cash releasing savings in 2008/09, £0.683 million in 2009/10 and £1.029 million in 2010/11). These will be challenging targets for SCRA to achieve and we will keep developments in this area under review during 2008/09.

Performance Management

31. SCRA fully achieved seven out of eleven of their Key Performance Indicators (KPI) for 2007/08 and came very close to achieving the desired performance level for the remaining four KPI's. Their performance against the KPI's was an improvement on 2006/07 for seven of the indicators, and equal performance for a further two of the measures. SCRA has reported that only two of the eleven KPI's had a lower achievement rate than the prior year.

32. A breakdown of achievement against each KPI is set out in tabular format below:

KPI	Target	Actual	Change from 2006/07
The percentage of Hearings scheduled to take place within 20 working days from Reporter decision.	73%	69%	(0.5)%
The percentage of Hearings scheduled to take place within 30 working days from Reporter decision.	92%	90%	0.4%
The percentage of written notifications of referral outcomes sent to children and families within five working days.	62%	75%	14.2%
The percentage of written notifications of referral outcomes sent to children and families within eight working days.	75%	82%	11.1%
The percentage of written notifications of Hearing decisions sent to children and families within five working days.	88%	91%	2.8%
The percentage of written notifications of Hearing decisions sent to children and families within eight working days.	93%	95%	1.8%
The degree to which SCRA core properties comply with SCRA property standards.	76%	79%	2.5%
The percentage of staff attendance.	95%	95%	(0.1)%
The percentage of expenditure that is within budget.	97%	100%	0.0%
The percentage of non-offence applications established at court.	93%	92%	0.0%
The average number of training days per member of staff.	4.5 days	3.9 days	30%

Source: 2007/08 SCRA Annual Report.



33. Of the two KPI's where performance had decreased on the prior period, the first related to the percentage of Hearings scheduled to take place within twenty days of the Reporter decision. SCRA had a target of 75%, and the achievement rate was 69%, a 0.5% fall on the prior years performance.
34. The second KPI where performance had decreased related to the percentage of staff attendance. This KPI had a target of 95%, and the achievement rate was 95%, so although SCRA actually achieved its target there was a 0.1% fall on the 2006/07 performance.
35. We will continue to monitor SCRA's performance against Key Performance Indicators as part of our 2008/09 audit.



Looking Forward

36. SCRA faces a number of challenges in 2008/09, which include:

- **Strengthening for the Future** – The Scottish Government has published a consultation document on proposals to reform and streamline Scotland's Children's Hearings System. The consultation document 'Strengthening for the Future', which was published on 31 July 2008, outlines plans to create a single national body which will bring together the work of SCRA, the delivery and administration of Children's Hearings, and the recruitment and training given to Panel Members. We will monitor SCRA's response to the consultation and further developments in this area throughout 2008/09.
- **SCOTS Connect** – SCRA are currently holding negotiations with Logica regarding the provision of SCRA's current IT hardware, software and support service provided under PFI. SCRA is moving to SCOTS Connect for the provision of these IT services as the PFI comes to an end. We will continue to monitor SCRA progress in negotiations and review any possible accounting implications as a result of decisions taken by SCRA.
- **International Financial Reporting Standards (IFRS)** – As part of the UK Budget 2007 the Chancellor announced that the timetable for IFRS implementation was to be extended by a year with central government accounts in Scotland to become IFRS compliant with effect from the 2009/10 financial year. The Scottish Government have notified central government bodies that they will be required to produce shadow IFRS based accounts for the financial year in 2008/09, including a restated balance sheet as at 1 April 2008. A detailed timetable and list of requirements has been issued by the Scottish Government. This process may require significant resource to complete and it will be important that the restatement is tackled early in 2008/09, with a plan in place to manage the transition.
- **Scotland Performs** – The Scottish Government is continuing to develop its approach to performance management based on a National Performance Framework and outcome agreements. The National Performance Framework is based on the outcome based 'Virginia-style' model of performance measurement and reporting. In support of this the Scottish Government has developed a new electronic tool and website to communicate to the public on Scotland's progress. This will include progress on overall delivery of the administration's purpose for Government, the five strategic objectives for Scotland and other aspects of the outcomes based National Performance Framework. We will consider how SCRA is addressing this developing area as part of the 2008/09 audit.



- **Efficiency and future funding** – Budgets for 2008/09 and the immediate future will need to be managed within a tighter funding regime. This includes significantly less scope for the application of end of year flexibility for the Government with HM Treasury until the next Spending Review; no option to transfer funds from capital to revenue; and the impact of the introduction of International Financial Reporting Standards (IFRS), particularly on PFI, leases and infrastructure accounting. The challenge for SCRA is to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives.
- **Data handling** – The Scottish Government carried out a review of data handling arrangements in Scotland, in response to failures in UK government bodies' procedures and practices during 2007. The review considered current policies and procedures on data protection, consistency with government standards and local arrangements for implementation of procedures. An interim report published in April 2008 made some initial recommendations and a final report is expected soon. We will monitor SCRA's response to the review and action taken as part of our 2008/09 audit.