

Scottish Children's Reporter Administration

Annual report on the 2010/11 audit



Prepared for Scottish Children's Reporter Administration and the Auditor General for Scotland
November 2011

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key messages

2010/11

In 2010/11 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 the use of resources and aspects of performance management and governance. This report sets out our key findings

We have given an unqualified opinion on the financial statements of SCRA for 2010/11. 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.

SCRA was able to provide their service within available Grant in Aid funding during 2010/11 incurring expenditure of £20.703m against a Grant in Aid funding of £23.752m. This has mainly been achieved through reducing costs on staffing and operating expenditure, although movements in the pension liability for 2010/11 did contribute to the overall result.

The accounts were prepared on a going concern basis despite an overall deficit position of £3.070m on the Statement of Financial Position on the understanding that the Scottish Government would fund all liabilities. This deficit position is mainly attributable to the valuation of future pension liabilities payable by SCRA. The pension liability has improved over the course of the last year, reducing from £28.558m in 2009/10 to £14.480m in 2010/11.

SCRA faces significant challenges in managing its future financial position as it becomes more difficult to off-set the effects of reduced financing settlements. During 2010/11 SCRA initiated a programme of review, in consultation with staff and key stakeholders to redesign the way that SCRA organised and delivered its services. This is a wide ranging review to prepare the organisation for the future covering 3 key themes of structures, technology and legislation. Some of the actions taken to address the financial challenges include a rationalisation of property, the renegotiation of procurement contracts, review of expenditure budgets and spending priorities, and a reduction of staff through a voluntary early release scheme. At the same time, key investments have been made in technology and property to support the revised operational business environment and ensure that services reflect the needs and expectations of children and their families.

Engagement with partner agencies and service users remains important to the work of SCRA and during the course of the year a number of initiatives and developments have commenced to support this work.

SCRA met all but 2 of its performance targets in 2010/11 reflecting an overall positive outcome for the organisation. Results show a reduction in the overall number and changes to the type of referrals being received by SCRA. This changing trend requires to be monitored by SCRA and their partner agencies to ensure that their work continues to be effective. Other

indicators show that SCRA is becoming more efficient in the administration and disposal of Hearings.

A new Corporate Plan for the period 2011 - 2014 was approved by the Board during the year. The plan is outcome focussed, supported by a number of key actions and reflects the changing business environment and challenges that SCRA faces as it implements the requirements of new legislation arising from the Children's Hearing (Scotland) Act 2011.

Outlook

SCRA anticipates a difficult financial environment in the years ahead with expected year on year reductions in Grant in Aid settlements. Finding greater financial efficiencies which do not impact on the level of overall service performance will become more difficult to achieve.

The workload of the organisation is changing and the demands on the service require a different response from officers. There are many different elements affecting SCRA's business environment which has an emphasis on partnership and multi-agency working. SCRA has commenced much of the work that it needs to do to implement these changes.

Introduction

1. This report is the summary of our findings arising from the 2010/11 audit of Scottish Children's Reporter Administration (SCRA). The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of corporate governance arrangements.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that SCRA understands its risks and has arrangements in place to manage these risks. The Board and Accountable Officer should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to SCRA and the Auditor General and should form a key part of discussions with audit committees, either prior to or as soon as possible after the formal completion of the audit of the financial statements. Reports should be made available to stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website after consideration by SCRA.
6. The management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
 - the regularity of the expenditure and income (except for local government bodies).
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the management commentary, statement on internal control and the remuneration report. Where required, auditors also review and report on the Whole of Government Accounts return. This section summarises the results of our audit on the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of SCRA for 2010/11 give a true and fair view of the state of the body's affairs and of its net operating cost for the year.
11. SCRA is required to follow the 2010/11 Government Financial Reporting Manual (the FReM) and we confirm that financial statements have been properly prepared in accordance with the FReM.

Going concern

12. SCRA has an overall net liability position presented in the Statement of Financial Position. This deficit position is attributable to pension liabilities which have been disclosed in accordance with accounting standards and requires a liability to be recognised in the current year for future payments to employees under the scheme. Under paragraph 25 of International Accounting Standards 1 Presentation of Financial Statements, 'management are to make an assessment of an entity's ability to continue as a going concern [and] when management is aware, in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern the entities shall disclose those uncertainties'
13. The accounts were prepared on a going concern basis on the understanding that any liabilities would be funded by the Scottish Government. The accounting policies were expanded to explain this position.

Regularity

14. In accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000, we have also provided an opinion, that in all material respects, the expenditure and receipts in the financial statements were incurred or applied in accordance with applicable enactments and guidance.

Remuneration report and statement on internal control

15. In our opinion, the audited part of the remuneration report has been properly prepared and the remaining elements of the remuneration report and management commentary are consistent with the financial statements.
16. We also confirm that we have no issues to report to you on the statement of internal control and its compliance with Scottish Government guidance.

Accounting issues

Accounts submission

17. The financial statements were submitted for audit on 27 June, in accordance with a pre-agreed timetable. The audit fieldwork was completed on 7 July and matters arising from this work were reported to the Finance Manager on 15 July.

Presentational and monetary adjustments to the unaudited accounts

18. A number of presentational changes were required to the annual report and accounts as a result of our review of the disclosures required by the FReM. There were also some monetary changes identified during the audit process attributable to the adjustments required to account for the results of the asset revaluation exercise which was not available at the start of the audit and adjustments relating to the prior year restatement of finance leases. As a result net expenditure increased from £20.638m to £20.703m and Net Liabilities on the Statement of Financial Position decreased from £3.154m to £3.07m. The audited financial statements have been adjusted to reflect these issues.

Prior year adjustments

19. All central government bodies have been affected by the removal of the cost of capital in the 2010/11 FReM and some by the change in disclosure of heritage assets. These changes are identified with Note 1 as changes in accounting policy and appropriate amendments have been made to the prior year statements.
20. SCRA also made a prior year adjustment in respect of the finance lease held in respect of their offices within West Lothian Civic Centre, Livingston. The 2009/10 financial statements had been prepared on the basis of best information available at the time and included the lease being held over a 25 year term. However after the 2009/10 accounts were signed the actual lease term was identified as 30 years. These changes are identified on the face of the Statement of Comprehensive net Expenditure and the Statement of Financial Position and

also in Note 13 (ii) as a prior year error and appropriate amendments have been made to the prior year statements.

Pension costs

21. IAS 19 "Employee Benefits" requires the inclusion of pension costs to be included in the financial statements. The pension fund assets and liabilities attributable to SCRA are calculated by actuaries appointed by the Falkirk Pension Fund. During the year adjustments to the actuarial assumptions due to how future pension increases paid to pensioners are calculated, changed from being linked to movements in the Retail Price Index to being based on the Consumer Price Index. This adjustment has contributed to a reduction in the future benefits payable by SCRA, as at 31 March 2011, of £7.7m. In addition, gains in the value of fund assets also contributed £6.4m, further reducing the total liability by approximately £14m. These adjustments have been reflected in the financial statements. The main movements are disclosed in the Statement of Financial Position and within the note 11 to the accounts.

Finance Lease - West Lothian Civic Centre

22. SCRA entered into a lease during 2009/10 with West Lothian Council for office accommodation within their Civic Centre complex in Livingston. This lease was assessed as a finance lease under IFRS accounting standards and an asset was recognised an asset on the balance sheet.
23. In our 2009/10 annual report, we recommended that SCRA review the valuation of the underlying asset during the course of 2010/11 to confirm the accuracy of the asset value presented on the balance sheet. SCRA requested a fair value for their lease from West Lothian Council, however the Council were unable to provide this as they have valued the building as a whole and do not record SCRA's lease as a finance lease. The asset value for 2010/11 continues to be derived from the minimum present value of the future lease payments.
24. We have therefore recommended that SCRA requests a further valuation of the accommodation occupied by SCRA within the West Lothian Civic Centre from the Council in 2011/12 in order to validate the asset valuation held on the balance sheet. In resolution of this issue, officers have agreed to resolve this matter during 2011/12.

Refer Action Plan No. 1

Outlook

25. The main change in the financial reporting framework (FReM) next year (2011/12) is that grants and donated assets should be recognised immediately, unless there is a condition that the recipient had not satisfied that would lead to repayment. Most grants and donated assets should be recognised as income, but grants from a sponsoring department to an NDPB should be credited to general reserves. As a consequence, the government grant reserve and donated asset reserve will no longer exist.

26. Looking further ahead, from 1 January 2013 changes to international financial reporting standards (IFRSs) will become effective. This includes the introduction of:
- IFRS 9 - financial instruments (replacing IAS39)
 - IFRS 10 - consolidated financial statements (replacing IAS27)
 - IFRS11 - joint arrangements (replacing IAS31)
 - IFRS12 - disclosure of interest in other entities (replacing IFRS12)
 - IFRS 13 - fair value.
27. Revisions to the FReM for 2013/14 are included in the Financial Reporting Advisory Board (FRAB) forward work programme for 1 December 2011.
28. The present financial structure of SCRA does not require to reflect some of these future developments.

Audit appointment for 2011/12

29. Audit appointments are made by the Auditor General, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment. The procurement process for the next five years was completed in May 2011. From next year (2011/12) the auditor for SCRA will be PricewaterhouseCoopers. As this is the final year of our audit appointment, we would like to acknowledge the good working relationship that existed during our current appointment term with SCRA and thank officers and members of the board and committees for their assistance during the last five years. We will be meeting with the incoming external auditors, PricewaterhouseCoopers, as part of a managed changeover process.

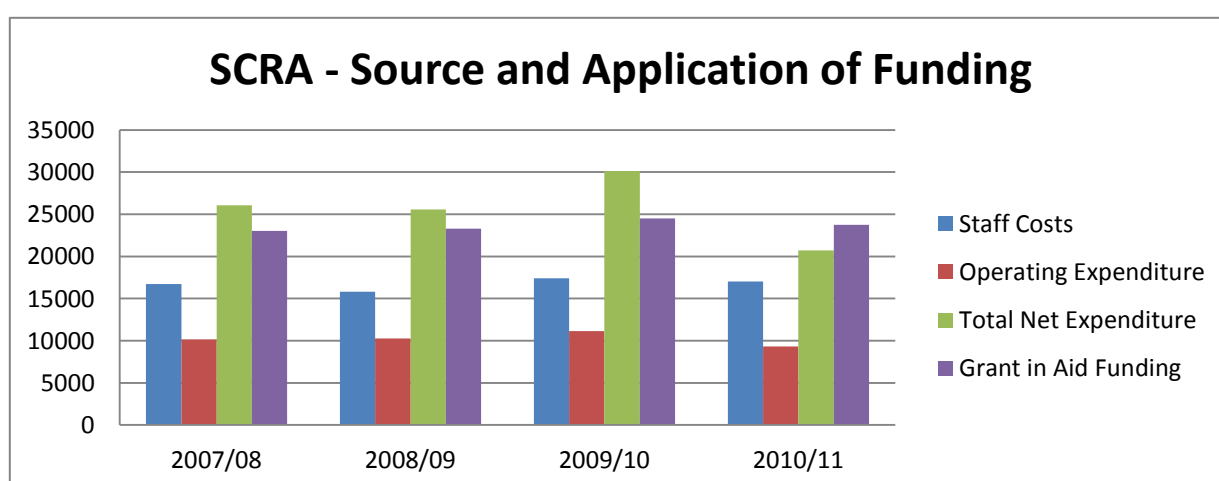
Financial position

30. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
31. Auditors consider whether audited bodies have established adequate arrangements and examine:
- financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
32. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results 2010/11

33. The revenue budget for SCRA in 2010-11 was £23.752m. The net operating cost was £20.703m resulting in a surplus of £3.049m. Improved performance in the pension fund arising mainly from the change in the calculation of future benefits payable from RPI to CPI provided a gain of £5.407m which has been included in the Statement of Comprehensive Net Expenditure. This gain accounts for much of the reported surplus at the year end. Eliminating this item demonstrates the continuing financial challenges that SCRA face in providing its services within allocated resource funding (Exhibit 1)

Exhibit 1: Financial trends in funding and expenditure; 2007/08 to 2010/11



Source: SCRA: Annual Financial Statements

34. Grant in Aid funding, with the exception of 2010/11 has exceeded total net expenditure. Whilst staff numbers have steadily decreased over the period (see table 1), staff costs and other

operating costs have remained fairly stable reflecting inflationary pressures. The overall total net expenditure in 2009/10 and 2010/11 incorporates additional factors, reflecting changes to accounting and reporting standards in 2009/10 and the financial impact of pension valuations which has fluctuated over the years.

Table 1: Average Numbers of Staff employed by SCRA

Year	No of permanent staff	No of short term staff	Total staff
2007/08	465	24	489
2008/09	460	24	484
2009/10	464	14	480
2010/11	453	5	458

Source: SCRA: Annual Financial Statements

Budgetary control

35. A strong system of monitoring the budgetary position was in place during the course of the year. This included devolved budgets being monitored on a regular basis by the corporate finance team, with reports being prepared and submitted to the Executive Management Team and Board for consideration. The senior management team participated in a challenge process on the allocation of budgets to rationalise the use of available funds and ensure that they were directed to the areas of highest priority. These actions all contributed to the final outturn position.
36. Financial plans set for the year included a number of anticipated efficiency savings derived from the managerial review highlighted above. A process of regular monitoring and review ensured that expenditure was tightly controlled and within approved budgetary levels.

Financial position at 31 March 2011

37. SCRA's Statement of Comprehensive Net Expenditure records Net Expenditure before Scottish Government Funding of £20.703m, a reduction of £9.417m compared to the total net expenditure incurred in 2009/10 of £30.120m. The movement in pension costs resulted in a reduction of total expenditure of £7.264m whilst reductions in expenditure for staff costs (£0.389m) and other operating costs (£1.775m) accounted for the majority of the balance. Excluding pensions, year on year cost reductions can be seen in the underlying cost base, indicating the positive effect of efficiency savings adopted by management.
38. The overall deficit position within the Statement of Financial Position (£3.070m) has improved since 2009/10 (£17.046m) mainly as a result of movement in the pension liabilities (net gain of £14.078m). An increase in the value of current assets of £0.236m is due mainly to increased cash balances of £0.267m held at the year end, reductions in Trade Receivables of £0.199m

and increases in assets held for sale of £0.168m. The increase in assets held for sale reflects the rationalisation of the property portfolio. The decrease in Trade Receivables of £0.199 million is mainly attributable to reductions in prepayments of £0.061m and PFI commitments of £0.137m reflecting changes to the contractual commitments for future expenditure.

Capital investment and performance 2010/11

39. SCRA approved a capital programme for 2010/11 which aimed to support a number of areas across its business activities and facilitate the longer term future development plans of the organisation. Included in the programme are a number of property projects aimed at providing a combination of new and upgraded premises to support business needs and meet customer expectations. These projects include IS projects to support frontline delivery of services (e.g. new telephony system), RAD development and support major work programmes including the new Case Management System. All capital projects are subject to a business case appraisal, which is presented to and considered by the SCRA Board or appropriate Committee.
40. A capital budget of £3.109m was approved for use in 2010/11. £0.725m was returned to the Scottish Government during the year as SCRA were unable to use all of this money within their current programme. Capital finance is allocated to SCRA from the Scottish Government as part of its Grant in Aid allocation. Also included in SCRA's overall capital budget are anticipated capital receipts of £590k. During 2010/11 a total of £263k was received from property sales (£33k above budget). A summary of this budget is shown in table 2.

Table 2: Capital Budget: 2010/11

	£m
Ring fenced monies b/f 2009/10	0.261
Capital allocation 2010/11	3.109
Monies returned to Scottish government in 2010/11	(0.725)
Revised Capital budget for 2010/11	2.645
Capital Expenditure incurred in year	2.275
Underspend in year - c/f to 2011/12	0.370

Source: SCRA Board paper; SCRA (June 11) 9

41. Expenditure incurred during the year amounted to £2.275m resulting in an underspend against the revised budget of £2.645m of £0.370m. £0.295m of this underspend relates to property projects. The total underspend of £0.370m will be carried forward to 2011/12 capital programme budget.

Financial planning to support priority setting and cost reductions

42. During 2010/11 SCRA initiated a programme of review, in consultation with staff and key stakeholders, to redesign the way that SCRA organised and delivered its services. This was partly in response to the reducing financial settlement but also to address important issues of inclusion and equity within service delivery and the changing role of Reporters with the introduction of legislative changes contained within the Children's Hearing (Scotland) Bill. The resulting structure has seen a major programme of change covering 3 key themes of structures, technology and legislation. The following paragraphs highlight some of the changes to the financial structure and priorities of the organisation.

Asset management

43. SCRA have reviewed their property portfolio and taken specific actions to invest in new properties and upgrade existing buildings to ensure that their service is delivered in an environment that meets the changing needs and expectations of the children and families it supports. To this end, SCRA has rationalised its estate, selling or renting out surplus properties and undertaking a review of the revenue costs of maintaining properties e.g. re-negotiating cleaning contracts. A total of £197k has been saved within revenue budgets associated with property costs in 2010/11.

Procurement

44. SCRA developed a procurement action plan following a Procurement Capability Assessment based on the Scottish Government's Sustainable Procurement Action Plan for Scotland which highlighted some areas for improvement. Actions taken during the year have strengthened the governance processes pertaining to procurement activities including the training being provided to delegated purchasers and procurement policies and procedures being reviewed and updated in line with recommended best practice. SCRA has signed up to the "Suppliers Charter" and utilises the Public Contracts Scotland portal across the organisation. The action plan will be monitored by the Executive Management Team.

Workforce reduction

45. SCRA has offered a number of employees access to a voluntary early release scheme over the last two years as part of its strategy to reduce expenditure on staff costs. This strategy is incorporated into the Board's overall financial strategy is one of a number of elements aimed at reducing the overall cost of the service. In 2010/11 a total of 31 employees accepted the offer and will leave on a phased basis subject to business needs at a cost to SCRA of £1.028m. The reduction in workforce numbers has been incorporated into other organisational change programmes which are geared to re-shaped the structure and operation of SCRA in future years.

Organisational restructure

46. Whilst work in each of the streams continues, a revised organisational structure has been designed and implemented with the establishment of 9 geographical localities supported by a Head Office and 2 business teams. The main benefits expected to be derived from this configuration are that SCRA will become a more resilient organisation, better able to respond to the changing needs and expectations of children and families. Expenditure savings will be derived from a reconfiguration of the property portfolio, which will be available for re-investment into other services. The new organisational structure will also provide development opportunities for staff within a variety of roles, whilst improving engagement opportunities with key stakeholders and service users. This new structure will be phased in over during 2011/12 and success will be measured through the existing key performance indicators used by the organisation.

Case Management

47. SCRA is moving towards implementing a new Case Management system which will play an integral part of the work performed by SCRA and is a replacement of the Referrals Administration Database. This project represents a capital investment of £1.5m and is expected to enhance the workflow management of individual cases and improve partnership working arrangements.
48. A related project is the Electronic Exchange Project which aims to develop an effective and accessible electronic gateway for casework information exchanges with key partners in the Children's Hearings System. The aim is to receive all referrals electronically from Police and Local Authorities. The project is expected to lead to improvements in the efficiency of operational procedures contribute to overall cost savings in the delivery of services.

Outlook

2011/12 budget

49. In financial year 2011-12 SCRA has been allocated revenue grant-in-aid of £21,923,150 inclusive of £682,000 ScotsConnect funding deducted at source, and £2,760,000 for capital expenditure. This represents a reduction of approximately 10% on both revenue and capital budgets. SCRA has taken account of the budgetary settlements in its financial planning processes.

End Year Flexibility

50. As part of efforts to reduce national borrowing levels, the UK Government has announced the replacement of End Year Flexibility with a more restrictive Budget Exchange arrangement from 2011/12. The Scottish Government is in dialogue with HM Treasury about the ultimate implications for the Scottish Budget, including the extent to which it can carry forward any unspent funding from 2010/11 to future years.

Financial forecasts beyond 2011/12

51. SCRA anticipates a difficult financial environment in the years ahead with expected year on year reductions in Grant in Aid settlements. The key risk to the organisation is being unable to secure future financial efficiencies in response to the cumulative effect of funding reductions and be in a position to maintain service quality.

Significant financial risks

52. The workload of the organisation is changing and the demands on the service require a different response from officers. There are many factors affecting SCRA's business environment with an emphasis on partnership and multi-agency working. Looking forward, the most significant issue for SCRA is being able to deliver sustainable services which meet the needs of the children and their families, whilst at the same time delivers efficiency.

Governance and accountability

53. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
54. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
55. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption
56. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

57. SCRA has maintained appropriate arrangements for the oversight and scrutiny of the work of SCRA during the year. Three new board members were appointed to the SCRA board which strengthen the composition of the Board.
58. A review of the membership of key committees was undertaken and changes made to the composition of the Executive Management Teams to reflect the future direction of the organisation.
59. SCRA has a range of policies and procedures which govern its activities and behaviours to ensure that it complies with best practice. A review of these policies is conducted each year as part of the activities supporting the review of systems of internal control which forms part of the annual financial statements process.

Internal control

60. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, our wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.

61. As part of our audit we reviewed the governance structures and processes relating to the staff costs, the operation of the general ledger, cash and banking processes and the payment of suppliers. Our work did not identify any significant control weaknesses in the systems of internal control.
62. Internal Audit forms an important component in the overall internal control system providing an independent assurance to management on the effectiveness of governance processes. In 2010/11 the internal audit function was performed by Scott Moncrieff. We assess the adequacy of the internal audit function within SCRA each year and reported that the service provided by Scott Moncrieff for 2010/11 was compliant with the Government Internal Audit Manual. This allowed us to work effectively with internal audit to reduce the level of duplication in our work and focus audit resources to the areas of highest risk. Specifically, we were able to rely upon the review of payroll undertaken by Scott Moncrieff during the year..

ICT data handling and security

63. In 2010/11 over 2,000 children were subject to Non-Disclosure Orders which is a special provision to protect the whereabouts of the child. During the year there were 31 known incidents of breaches in Non-Disclosure Orders. Of this number, 7 were the responsibility of SCRA, with the remaining being attributable to other parties or agencies involved with the family.
64. During the course of the year SCRA undertook a number of actions to address this issue including an internal review of cases where a breach had occurred in order to develop a range of best practices. SCRA also presented a paper to the Children Hearings Improvement Partnership on the issue of non-disclosure and highlighted the issue at a recent NHS Education Scotland conference on child protection.
65. In addition, SCRA reported 3 cases of breaches in case information to the Office of the Information Commissioner during 2010/11. Case information relates to personal data held by SCRA on individuals and their families involved in the Children's Hearing System. During the year, SCRA reviewed their internal procedures to monitor and report on data breaches relating to case information.

Prevention and detection of fraud and irregularities

66. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
67. SCRA 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. These are supported by a fraud prevention policy and response plan. We are not aware of any reportable incidents during the year.

Standards of conduct and arrangements for the prevention/ detection of bribery and corruption

68. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. We have concluded that the arrangements in SCRA are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Best Value, use of resources and performance

69. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. .
70. The Auditor General may require that auditors consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where no requirements are specified for auditors in a period they may, in conjunction with their audited bodies, agree to undertake local work in this area.]
71. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
 - a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
72. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments
73. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
74. This section includes a commentary on the Best Value/ performance management arrangements within SCRA. We also note any headline performance outcomes/ measures used by SCRA and any comment on any relevant national reports and the body's response to these.

Management arrangements

Best Value

75. In March 2011, the Scottish Government issued new guidance for accountable officers on Best Value in Public Services. The new guidance, in essence, required public bodies to take a systematic approach to self-evaluation and continuous improvement.
76. The guidance identifies the themes which an organisation needs to focus on in order to deliver the duty of Best value, but notes that implementation should be appropriate and proportionate to the priorities, operating environment, scale and nature of the body's business.

77. The five themes and two cross-cutting themes (some of which we have commented on earlier in this report) are:
- vision and leadership
 - effective partnership
 - governance and accountability
 - use of resources
 - performance management
 - equality (cross-cutting)
 - sustainability (cross-cutting)
78. SCRA endeavours to implement best value into its operational and corporate activities when reviewing policies and procedures and securing value for money from procurement activities in support of these objectives.

Performance management

79. Performance management is linked to corporate objectives and provide an indication of how well SCRA is delivering its service. The SCRA corporate plan for 2008-2011 included three corporate objectives:
- Service Delivery - Driving improvements in practice quality and the management of our casework for children
 - Service modernisation - Transforming the way we deliver our services for children and families
 - Organisational Transition - Transitioning SCRA to the new single agency for the Children's Hearings System
80. Under each objective there are a number of actions identified to enable performance to be monitored as well as complying with statutory performance targets e.g. payment of suppliers within 10 days. Management keep targets and actual performance under review to ensure achievement of key actions. These are discussed in more detail in paragraph 84 below.
81. A revised Corporate Plan has been approved for the period 2011 - 2014 where the focus of the strategic objectives are based on outcomes, underpinned by a number of key actions. This plan reflects the changing business environment faced by SCRA as a result of the Children's Hearing (Scotland) Act 2011 aimed at strengthening and improving the Children's Hearing system in Scotland.

Community/user engagement

82. SCRA actively engages with stakeholders and children and their families involved in the Children's Hearing System. During 2010/11 SCRA was involved in a number of initiatives to ensure that the child's voice is heard and improve their experience at Hearings e.g. roll out of "All About Me" forms across all offices, revised wording used in letters to ensure that they were more user friendly, and the piloting of "Flash Cards" to improve the child's involvement at

a Hearing. In addition a number of actions were taken as a result of partnership working with Young Scot aimed at reviewing accessibility of information available to children and young people.

Partnership working

83. SCRA aims to work in partnership with many agencies from across the public and third sectors as well as with children and families. A recent development in this area was the establishment of Children Hearing Improvement Partnership in November 2010. This new national forum brings together key stakeholders from Government, local authorities, National Health Service and the voluntary sector to deliver better outcomes for children across the Children's Hearings System.

Overview of performance in 2010/11

84. Some of the measures of performance achieved by SCRA in 2010/11 include:
- Number of children referred on offence grounds fell by 18.8%
 - Number of children referred on care / protection grounds fell by 5.7%
 - Increase in number of very young children being referred
 - Number of children's Hearing decreased
 - Percentage of decisions on referrals within 50 working days increased to nearly 78%
 - The schedule of Hearing within 20 days increased to 79%
 - The percentage of initial Hearing proceeding to disposal increased to 76%
85. Some of the measures of performance not achieved in 2010/11 include:
- The "notification of referral outcomes" target was missed by 7%
 - The "variance in annual capital spends" target was also missed primarily due to delays in spending and underspend on some projects.
86. These indicators identify that the work of SCRA is changing in terms of the type of referrals being received. Key indicators on the administration and disposal of Hearing also identify that improvements are being made and the Hearing system is operating more efficiently. The 2 targets which were not achieved during the year are perhaps an indicator of the challenges faced by management in implementing organisational change and the impact this may have on management capacity.

Refer Action Plan No. 2

National performance reports

87. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year of direct interest are set out in Exhibit 2.

Exhibit 2: A selection of National performance reports 2010/11

- | | |
|---|---|
| <ul style="list-style-type: none"> • Improving energy efficiency: a follow-up report • Scotland's public finances: responding to the challenges • The role of boards | <ul style="list-style-type: none"> • Role of boards: a summary for non-executive board members • Management of the Scottish Government's capital investment programme • The cost of public sector pensions in Scotland |
|---|---|

Source: www.audit-scotland.gov.uk

The Role of Boards

88. This report examined the accountability arrangements of boards to the Scottish Government and considered how Boards operate, including the knowledge and expertise of board members.
89. The report identified a number of key findings:
- The make-up of boards and their role has evolved over time rather than as a result of any objective evaluation of the best model for public accountability.
 - In addition to giving leadership and strategic direction, a very important role for boards is the scrutiny of risk, financial management and performance
 - The overall number of people applying to be non-executives is falling. The length of time it can take to make an appointment remains too long and there has been mixed progress in widening the diversity of applicants to become non-executives.
90. The report made some recommendations for the Scottish Government and Public Bodies, including:
- The need to review the skills and expertise that they need among non-executives for the future and seek to attract applicants to fill any gaps identified.
 - ensure that their boards focus their scrutiny on organisational performance, financial management and risk management
 - review the use of committees and ensure that major decisions which should be made by the board are not delegated
91. SCRA responded positively to this report, using the report checklist to inform a review of governance arrangements which had recently commenced within the organisation. The outcome of the governance review was considered by the SCRA Board at its meeting in November 2010 and an action plan developed to implement the recommendations.

Outlook

92. Expected reductions in financial settlements in the coming years will reduce the level of Grant in Aid available to SCRA to deliver its services. As a small organisation, finding greater

financial efficiencies which do not impact on the level of overall service performance will become more difficult to achieve.

93. Overall the forthcoming years will be a very challenging period for the operation of SCRA as it faces a period of significant organisational change and re-focussing of its strategic objectives.

Appendix A: audit reports

External audit reports and audit opinions issued for 2010/11

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan – SCRA	11 February 2011	22 February 2011
Key financial controls assurance report	6 May 2011	26 May 2011
Report on financial statements to those charged with governance	11 August 2011	25 August 2011
Audit opinion on the 2010/11 financial statements	11 August 2011	25 August 2011

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	24	SCRA requested a fair value for the lease of accommodation at West Lothian Civic Centre from West Lothian Council, however the Council were unable to provide this as they have valued the building as a whole and do not record SCRA's lease as a finance lease. The value of the asset therefore continues to be derived from the minimum net present value of the future lease payments.	Officers have agreed to carry out a further review of the valuation prior to preparation of the 2011/12 financial statements.	Head of Finance & Resources	March 2012
2	86	The programme of review is demanding but vital if SCRA is to continue to develop and improve. At a time of economic uncertainty and pressures on SG funding, management capacity will be critical in ensuring that SCRA is able to progress this programme whilst still being able to deliver existing services and programmes of work.	Identify and review the effectiveness of the processes and structures which ensure organisational change is managed effectively whilst ensuring delivery of core services'	Principal Reporter / Chief Executive	September 2012