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# ***Scottish Children's Reporter Administration (SCRA)***

Annual Report to Board Members and  
the Auditor General for Scotland

Audit Committee

27 September 2012

Final Report



For the attention of the Board  
Scottish Children's Reporter Administration  
Ochil House  
Springkerse Business Park  
Stirling  
FK7 7XE

27 September 2012

Dear Sirs

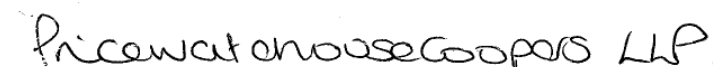
We are pleased to enclose our External Audit Annual Report to Board Members and the Auditor General for Scotland for the financial year ended 31 March 2012. This report discharges our obligations under International Standards of Auditing ("ISA") 260: Reporting to those charged with Governance. We have assumed that the responsibility for governance has been discharged to the Audit Committee by the SCRA Board. The primary purpose of this report is to communicate the significant findings arising from our external audit that we believe are relevant to those charged with governance, and to meet our obligations as set out within the Audit Scotland Code of Practice.

The scope and proposed focus of our audit work was summarised in our audit plan, which we presented to the Audit Committee on 23 February 2012. We have subsequently reviewed our audit plan and concluded that our original risk assessment remains appropriate, although recognising the value of income received; we have changed our initial assessment of this as a significant audit risk to a normal risk. The procedures we have performed in response to our assessment of significant audit risks are detailed within the Key Areas of Audit Focus section of this report.

We have completed our year end external audit work on the financial statements and will issue an unqualified audit opinion, following the meeting of the SCRA Board on 27 September 2012 to approve the financial statements.

We look forward to discussing our report with you and would like to take this opportunity to thank SCRA staff and management for their cooperation and assistance throughout the audit process.

Yours faithfully



PricewaterhouseCoopers LLP

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# Section 1: Introduction

We have pleasure in presenting this report relating to our audit of the financial statements of the Scottish Children's Reporter Administration (SCRA) for the year ended 31 March 2012.

We have discussed this report with the Head of Finance and Resources as part of our year end audit process. The purpose of this report is to update the Audit Committee on the output of the audit and of any significant matters that have arisen during the course of our work.

## Scope, nature and extent of our audit

Our overall responsibility as external auditor of SCRA is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011. In this regard, the Code sets out the need for public sector audits to be planned and undertaken from a wider perspective than in the private sector, involving not only assurance on the financial statements but also consideration of areas such as regularity, propriety, performance and the use of resources. It also sets out the need to recognise that the overall audit process is a co-ordinated approach involving the "appointed auditor" and the Auditor General for Scotland.

Our audit has been planned and conducted to take account of these wider perspectives. Under the requirements of International Standard on Auditing (UK and Ireland) ('ISA') 260: "Communication of audit matters to those charged with governance", we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity. This Annual Audit Report to Members, together with previous reports to the Audit Committee throughout the year, discharges the requirements of ISA 260.

## Status

Our audit work on the draft financial statements for the year ended 31 March 2012 was carried out over a three week period commencing 4 June 2012. The audit is complete, and we have issued an unqualified audit opinion.

## Management responsibility

It is the responsibility of the Board and the Principal Reporter/Chief Executive, as Accountable Officer, under Section 136(3) of the Local Government Etc. (Scotland) Act 1994, to prepare financial statements for each financial year in the form and on the basis determined by the Scottish Ministers. This means:

- acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
- maintaining proper accounting records;
- preparing financial statements timeously which give a true and fair view of the financial position of SCRA and its expenditure and income for the period ended 31 March 2012; and
- preparing Management Commentary, a Governance Statement and a Remuneration Report.

## Auditor's responsibilities

We audit the financial statements and the part of the Remuneration Report to be audited and give an opinion on:

- whether they give a true and fair view of the financial position of SCRA and its expenditure and income for the period 1 April 2011 to 31 March 2012;

- whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
- whether the information which comprises the annual report included with the financial statements is consistent with the financial statements; and
- whether expenditure and receipts have been incurred and applied in accordance with guidance from Scottish Ministers (the regularity opinion).

## The audit process

This is our first year as your appointed external auditors, under a 5 year contract, appointed by Audit Scotland. We received a complete draft set of financial statements within the timetable we agreed, which were supported by a good set of working papers. All necessary SCRA staff were available to assist us complete our year end testing, and all issues identified were discussed and resolved on a timely basis.

A very small number of financial adjustments, as well as a number of disclosure amendments were discussed and agreed with Management and these have been reflected in the final financial statements.

## Opinion

We have issued an unqualified audit opinion on the financial statements, including the regularity of expenditure and income. In addition, our opinion will be unqualified in respect of the parts of the Remuneration Report subject to audit.

## Significant auditing and accounting matters

Section 4 contains other matters for the attention of those charged with governance, including elements of communication required under International Standard on Auditing "Communication with those charged with governance". This section includes communication regarding identified misstatements, a summary of which is included in **Appendix 1**. We are also required to communicate with you regarding any significant deficiencies in internal control of which we are aware. We identified some minor recommendations for improving SCRA's systems of internal control which will be communicated to management in a separate management letter. However, these are not deemed to be significant to impact on SCRA's Governance Statement or merit inclusion with this Annual Report.

## Staff Assistance

We would also like to take this opportunity to express our thanks for the co-operation and assistance we have received from management and staff throughout our work.

## Section 2: Financial performance

### Financial performance 2011/12

	2011/12	2010/11
	£000	£000
<b>EXPENDITURE</b>		
Staff costs	15,967	17,018
Other Expenditure	6,930	6,854
Depreciation	1,871	2,475
	<b>24,768</b>	<b>26,347</b>
<b>INCOME</b>		
Other Income	375	300
Comprehensive net expenditure before interest and other finance costs	24,393	26,047
<b>Net expenditure before Scottish Government funding</b>	<b>25,553</b>	<b>20,703</b>

\* As extracted from the 2011/12 Statement of Comprehensive Expenditure.

### Performance against budget

	Budget	Actual	Variance
	£000	£000	£000
Grant in Aid	22,148	22,148	0
Other Income	290	375	85
<b>Total Income</b>	<b>22,438</b>	<b>22,523</b>	<b>85</b>
Staff Costs	16,107	15,967	(140)
Other Operating Costs	6,286	6,930	644
Depreciation	2,500	1,871	(629)
<b>Total Expenditure</b>	<b>24,892</b>	<b>24,768</b>	<b>(125)</b>



SCRA had total available revenue resources for the financial year 2011/12 of £22.523 million, comprising £22.148 million of core Grant in Aid (GiA) and £0.375m other income generated, for example from local authority funded posts and property rentals . The GiA included a supplementary award, £0.150m of which was to specifically contribute to reducing the deficit in the Falkirk Pension Fund and to offset certain future employer's costs<sup>1</sup>.

The overspend in other operating costs is as a result of additional expenditure within Support Services related to the new case management system, including additional Referral Administration Database (RAD) support costs, back scanning costs and training costs. However, this was partially offset by a reduction in staff costs and a small increase in other income.

Finally, the depreciation charge for the year was slightly less than budgeted as a number of existing assets were fully depreciated part way through the year.

## Financial outlook – 2012/13 and beyond

The SCRA Board approved the annual budget for 2012/13 on 15 March 2012 and financial strategy for 2012-2017 on 20 June 2012.

The 2012/13 budget is based on GiA of £21.400 million (confirmed by the Scottish Government in May 2012), with a capital allocation of £1.100 million. The 2012/13 budget represents a reduction in GiA of £0.748million (3%). The financial strategy for 2012 - 2017 has assumed a revenue reduction of 2.5% per annum and capital of £1.000 million, decreasing to £0.500 million per annum from 2014/15.

The majority of SCRA's 2012/13 budgeted gross revenue expenditure (70% after deduction of savings target) is allocated to staff salaries (including pension costs). SCRA projections are sensitive to assumptions on staff numbers, pressures on pay and conditions, and pensions. Following the additional £0.150 million one off payment in 2011/12 to reduce the deficit in the Falkirk pension fund, SCRA'S employer's contribution rate will be slightly lower at 17.6% for 2013/14 and 2014/15, compared to 18.3% previously. However, the financial plan assumes that pension costs will revert to 18.3% from 2015/16 due to concerns around the long term sustainability and affordability of the fund highlighted by the fund's actuaries.

The 2012/13 approved revenue budget includes a savings target of 4% of staff costs. Known leavers from the organisation in 2012/13 and a new Voluntary Redundancy scheme for non reporter staff are expected to contribute to a reduction in FTEs to around 400 by March 2013.

SCRA have not been set a formal efficiency target by the Scottish Government, however, there is an expectation that savings of at least 3% per annum are required from 2013/14, amounting to £2.000 million of savings over the four year period to 2016/17. The Board approved an Efficiency Delivery Plan in September 2011 which targeted efficiency savings in staff and non-staffing costs through to 2013/14. Savings have been identified from areas such as property rationalisation and reducing support costs and incorporated in the 2012/13 approved budget. Whilst the efficiency target was set through to 2013/14, SCRA intend to review and refresh the plan to take account of latest developments and initiatives.

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<sup>1</sup> Extracted from the Q 4 2011/12 Budget monitoring report presented to the Board on 13 June 2012.

## Wider Business Issues

Children's Hearings Scotland, a new Non-Departmental Public Body, has been created as a result of the Children's Hearing (Scotland) Act 2010. Corporate support for Children's Hearings Scotland will be provided by SCRA, in particular key finance and HR functions. SCRA has an objective to 'improve experiences and outcomes for children and young people in the Children's Hearings System by working effectively with Children's Hearings Scotland'.

## New Case Management System

SCRA are in the process of developing and implementing a new case management system, in line with the new legislation being introduced. Two revisions were made to the business case for this project within the year, increasing the costs and revising the timescales associated with the project. This is a major project for the organisation and a review of the project, within the context of SCRA's Change Programme, has been undertaken by SCRA's Internal Auditors.

## Section 3: Key areas of audit focus

Our audit followed the strategy set out in our Audit Plan which was presented to the Audit Committee on 23 February 2012. We confirm that there has been no cause for us to vary the planned scope of our work except in relation to revenue recognition, where given the value of income received we no longer consider this to be a significant audit risk.

### Our response to the areas of audit focus identified in the audit plan:

Risk identified/area of audit focus	Audit response
Management override of controls (Significant Risk)	In accordance with our audit plan, we have reviewed management's overall fraud arrangements and policies. We have reviewed a sample of significant journal entries and examined management's accounting estimates for bias. We have also carried out testing around the use of corporate credit cards as part of our response to this risk.  This work did not identify any material errors that required adjustment to the financial statements.
Revenue recognition (Significant Risk per plan but amended based on materiality of income)	We examined and tested a sample of income transactions with a focus on ensuring that income is recognised in the period to which it relates.  This work did not identify any material errors that required adjustment to the financial statements.
Recognition of operating expenditure (Significant Risk)	We obtained an understanding of the purchasing and payables process as part of our interim audit. We performed substantive testing on a sample of expenditure transactions. We have undertaken specific cut-off testing to identify potential unrecorded liabilities.  This work did not identify any material errors that required adjustment to the financial statements.
Accounting for accruals (Elevated Risk)	As part of our consideration of accounts payable balances, we examined a sample of accrued expenses and the related supporting documentation.  We identified two financial adjustments relating to accrual balances which have been discussed with and adjusted by management. <b>See Appendix 1.</b>
Accounting for WLA Lease (Elevated Risk)	We have reviewed the supporting documentation for the office area SCRA lease in the West Lothian Civic Centre. This lease is accounted for as a finance lease in the 2011/12 financial statements, consistent with prior year. Given the limited information made available by the Council, SCRA have adopted a suitable methodology to estimate the fair value of the lease. In our view, the methodology adopted is reasonable, and the risk of the financial statements being materially misstated in respect of this lease is considered minimal.

Risk identified/area of audit focus	Audit response
Professional scepticism	<p>As auditors, we are required to display professional scepticism when we plan and perform our audits. This involves providing challenge to management in areas such as critical assumptions, judgements, explanations and inconsistencies.</p> <p>During this audit, we have displayed professional scepticism in a range of areas including, for example,</p> <ul style="list-style-type: none"> <li>• <b>Legal Confirmations:</b> From our detailed audit work performed on operating expenses we identified two additional solicitor firms used by SCRA in the year which we were not previously aware of. Legal confirmation letters were subsequently sent out to ensure completeness of responses.</li> <li>• <b>Holiday Pay Accrual:</b> Management calculate the holiday pay accrual using a sample of employees across the organisation. We challenged and discussed this with management if this was the most appropriate way to derive the figure disclosed in the account.</li> <li>• <b>Journals:</b> We performed testing over a sample of manual journals processed by Finance staff to ensure adjustments were appropriate, amounts recorded agreed to supporting documentation and there was evidence of segregation of duties. We included immaterial journals within our sample to introduce an element of unpredictability.</li> </ul> <p>Our work did not identify any material errors that we need to bring to your attention.</p>

# Section 4: Significant audit and accounting matters

## Required communications on significant matters

The following table contains communication required under ISA 260 (revised and re-drafted) "Communication with those charged with governance".

Requirement	Delivery of requirement
Uncorrected and corrected misstatements	We identified two financial misstatements with both corrected in the 2011/12 final financial statements. Details of these can be found in Appendix 1 for information.
Significant accounting principles and policies	Significant accounting principles and policies are disclosed in the notes to the financial statements. We ask the Accountable Officer to represent to us that they have considered the accounting policies and that there have not been any material changes in the accounting principles and policies used during the year (letter of representation attached as an appendix to this report for information)
Significant qualitative aspects of accounting practices and financial reporting, management's judgments and accounting estimates	We reviewed management's judgements and accounting estimates in respect of land and buildings valuations and the provision for unfunded pension liabilities, which is consistent with prior years.
Deficiencies in the internal control environment	The purpose of our audit is to express an opinion on the financial statements. The audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that were appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. Any deficiencies in internal controls identified during our audit have been reported separately to Management.
Details of material uncertainties related to events and conditions that may cast significant doubt on SCRA's ability to continue as a going concern	We have not encountered any material uncertainties which cast doubt upon the ability of SCRA to continue as a going concern.
Significant difficulties encountered during the audit	No significant difficulties were encountered during our audit which we require to bring to your attention.
Confirmation of audit independence	We confirm that, in our professional judgment, as at the date of this document, we are independent auditors with respect to SCRA within the meaning of UK regulatory and professional requirements and that the objectivity of the audit engagement leader and the audit staff is not impaired.

# ***Section 5: Governance, accountability and internal control***

As part of our wider external audit remit, stemming from our responsibilities under Audit Scotland's Code of Audit Practice, we are required to consider SCRA's governance and accountability arrangements in our audit work. For 2011/12, a major part of this work has been our follow up of Audit Scotland's national performance report, The Role of Boards. A separate report of our findings will be prepared and presented to the next Audit Committee. However, this work has enabled us to gain an understanding of SCRA's existing governance arrangements as they concern:

- corporate governance and systems of internal control;
- the prevention and detection of fraud and irregularity; and
- standards of conduct and arrangements for the prevention and detection of corruption.

We provide brief comment on SCRA's governance systems and structures below.

## **Corporate governance and internal control**

The Board is responsible for ensuring that SCRA fulfils the aims and objectives set by Scottish Ministers. The role of the Board includes establishing the overall strategic direction, monitoring performance against agreed objectives and ensuring that statutory requirements for the use of public funds are complied with. The Board has recently been involved in the development of SCRA's corporate plan for 2012-2017.

The Board is supported by the Audit Committee, which has responsibility for monitoring risk and internal control, and the Remuneration Committee.

## **Governance Statement**

As your external auditors, we are required to review the governance statement before publication and report as to whether the statement complies with relevant guidance, is misleading, or is inconsistent with other information obtained during the audit. We do not consider whether the statement covers all risks and controls, or form an opinion on the effectiveness of internal control or risk management arrangements. We have reviewed the governance statement and confirm that there are no matters to report.

We have considered internal control as it concerns the key financial systems and to an extent based on our audit risk assessment. The purpose of our audit is for us to express an opinion on the financial statements. This includes consideration of internal control relevant to preparation of the financial statements in order to design appropriate audit procedures. It does not extend to expressing an opinion on the effectiveness of internal control.

We are required by ISA 265 to report to those charged with governance and management deficiencies in internal controls that the auditor has identified during the audit and that, in the auditor's professional judgment, are of sufficient importance to merit their respective attentions.

We have not identified any significant material weaknesses in the current system of internal controls which we are required to report to you.

Any other deficiencies identified during our final visit are not judged to be significant and will therefore be reported separately to Management for action.

## Prevention and detection of fraud

Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. As part of our external audit, we have reviewed SCRA's high level arrangements for preventing and detecting instances of fraud and corruption. As part of our audit work we reviewed the use of corporate credit cards and performed procedures to check that a sample of expenditure had been appropriately authorised. There are no matters we wish to bring to your attention concerning fraud.

Management have established a formal fraud policy, which is disseminated to all employees upon induction. The policy covers the process for fraud prevention, detection, communication and investigation. A whistleblowing policy and staff code of conduct are also in place. All members of staff are made aware of these policies and their responsibilities under them.

## Standards of conduct

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. We have not become aware of any issues concerning SCRA's arrangements that we need to identify in this report.

## Risk Assessment

SCRA has a risk management policy in place. SCRA's Board is responsible for the management of strategic risks within SCRA and approved the strategic risk register on 1 December 2011. The Board meets quarterly to consider the plans and strategic direction of the organisation.

The Board has charged the Audit Committee with overseeing the operation of the system of internal control and with ensuring robust risk management arrangements within SCRA, including review of the strategic and operational risk registers on a six-monthly basis.

The operational risk register is regularly reviewed by the Operational Group which is chaired by the Principal Reporter/Chief Executive. Each programme also maintains a risk register, with any risks requiring escalation escalated to the Executive Management Team for review.

## Internal Audit

As set out in our Annual Plan, International Standard on Auditing (UK and Ireland) 610: "Using the work of internal auditors" requires us to:

- Consider the activities of Internal Audit and the extent that their work can be relied upon for external audit procedures;
- Obtain sufficient understanding of internal audit activities and the effectiveness of the function to enable us to identify areas of risk and develop an effective and targeted audit approach; and
- Evaluate and test the quality and timeliness of internal audit work, where we seek to rely on the findings, in order to confirm its adequacy for our purposes.

The content of the annual internal audit plan is reflective of the size and nature of SCRA, and during the year internal audit presented a number of reports to the Audit Committee.

Internal audit completed planned work and concluded in their annual report that “SCRA has a framework of controls in place that provides reasonable assurance regarding the effective and efficient achievement of its objectives and the management of key risks.”

Due to the areas of internal audit focus for 2011/12 we did not place specific reliance on any of the reports issued during the year, but they did assist us in our understanding of the risks facing SCRA and key activities.



# *Appendices*

# Appendix 1: Summary of corrected misstatements

In the course of our audit work, we record the errors or misstatements we find except those that are clearly trivial, which in the case of SCRA are those considered to be less than £10,000 (this represents 2% of our overall materiality level as set out in our External Audit Planning document presented to the Audit Committee).

Presented below is a record of those misstatements, both of which have been adjusted by management.

No	Description of misstatement (factual (F), judgemental (J), projected (P))	Income statement		Balance sheet	
		Dr	Cr	Dr	Cr
1	<p>Dr Operating Expenses Cr Accruals</p> <p>An amount of £14,688 was deducted from an invoice total and recorded as 'put on hold' until certain documentation was signed. Because this amount will be paid upon finalising of further rent documentation, the liability still exists and the invoice should be recorded at the full amount.</p> <p><b>Status: corrected</b></p>	F	14,688		14,688
2	<p>Dr Accruals Cr Cash</p> <p>This balance relates to income received in 2006 from the Scottish Government which was to be used by SCRA to give to other government agencies under a Training scheme. The last application was made in 2007/08, thus leaving a remaining balance sitting as a creditor since this income is restricted to only being used for the specific training scheme. This scheme has since expired. Subject to agreement from the Scottish Government the balance be written off.</p> <p><b>Status: corrected</b></p>	F		26,117	26,117

## Disclosure Adjustments

In addition to the number adjustments presented above, we have proposed a number of disclosure adjustments which have been reflected in the financial statements.



*This report has been prepared for and only for the Scottish Children's Reporter Administration in accordance with the terms agreed with Audit Scotland in our engagement letter dated 17 March 2012 and for no other purpose. We do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.*

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