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# *Children's Hearings Scotland*

Annual Report to Board Members and  
the Auditor General for Scotland

For the financial year ended 31 March 2013

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Board Meeting

18 September 2013



141 Bothwell Street  
Glasgow  
G2 7EQ

For the attention of the Board  
Children's Hearings Scotland  
Ladywell House  
Ladywell Road  
Edinburgh  
EH12 7TF

18 September 2013

Dear Sirs,

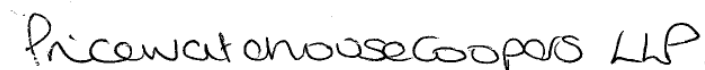
We are pleased to enclose our Annual Report to Board Members and the Auditor General for Scotland for the external audit of the year ended 31 March 2013. This report also discharges our obligations under International Standards of Auditing ("ISA") 260: Reporting to those charged with Governance.

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 and Risk Committee on 18 February 2013. 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 expect to issue an unqualified audit opinion following the meeting of the Children's Hearings Scotland Board on 18 September 2013 to approve the financial statements. We would like to take this opportunity to thank Children's Hearings Scotland staff and management for their cooperation and assistance throughout the audit process.

Yours faithfully

A handwritten signature in black ink that reads "PricewaterhouseCoopers LLP". The signature is written in a cursive, slightly slanted style.

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 Children's Hearings Scotland ('CHS') for the year ended 31 March 2013.

We have discussed this report with the Director of Finance and Corporate Services as part of our audit process. The purpose of this report is to update the CHS Board 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 CHS 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 Board Members discharges the requirements of ISA 260.

## Management responsibility

It is the responsibility of the Board and the National Convenor/Chief Executive, as Accountable Officer, under the Children's Hearings Scotland Act 2011, 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 CHS and its expenditure and income for the year ended 31 March 2013; 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 Children's Hearings Scotland and its expenditure and income for the year to 31 March 2013;
- 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).

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We also review the Governance Statement by considering the adequacy of the process put in place by the National Convenor/Chief Executive as Accountable Officer to obtain assurances on systems of internal control; and assess whether disclosures in the statement are consistent with our knowledge of the organisation and in line with guidance.

## The audit process

We received a complete draft set of financial statements within the timetable we agreed. All necessary CHS staff were available to assist us to complete our year end testing, and all issues identified were discussed and resolved on a timely basis.

A number of disclosure amendments were discussed and agreed with management and these have been reflected in the final financial statements.

## Opinion

We have completed our year end external audit work on the financial statements and have issued an unqualified audit opinion. Our opinion is also unqualified in respect of the Remuneration Report and of consistency of the Board Report with the financial statements.

## 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”.

## 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 2012/13

<b>EXPENDITURE</b>	<b>2012/13</b>	<b>2011/12</b>
	<b>£m</b>	<b>£m</b>
Staff costs	(0.674)	(0.221)
Other operating charges	(0.478)	(0.307)
	<u>(1.152)</u>	<u>(0.528)</u>
<b>INCOME</b>		
Other Finance Income	0.001	-
	<u>1.151</u>	<u>0.528</u>
<b>NET EXPENDITURE BEFORE SCOTTISH GOVERNMENT FUNDING<sup>1</sup></b>		
	<u>1.151</u>	<u>0.528</u>

Expenditure in 2012/13 increased by £0.623million from the prior year reflecting the increased activity in the year as CHS moved towards its 'go live' of 24 June 2013. The largest increase was due to staff costs, which increased by £0.453million driven by a rise in the average number of employees (15 in 2012/13 compared to 3.9 in 2011/12).

The results for the year show Net Operating Expenditure of £1.151million with an under spend of £0.099m against Grant- in- Aid.

Grant-in-aid from the Scottish Government for 2012/13 was £1.25million, which CHS has drawn down in full. CHS had a general fund balance of £0.321m as at 31 March 2013.

### Performance against budget\*

	<b>Actual 2012/13</b>	<b>Budget 2012/13</b>	<b>Variance</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<u>Expenditure</u>			
Staff Costs	0.674	0.675	(0.001)
Board	0.072	0.099	(0.027)
Property	0.068	0.067	0.001
Travel	0.016	0.012	0.004
Other Operating Charges	0.207	0.273	(0.066)
Direct Support for Panel	0.114	0.124	(0.010)
<b>Net Operating Expenditure</b>	<u>1.151</u>	<u>1.250</u>	<u>(0.099)</u>
<u>Income</u>			
Grant-In-Aid	1.250	1.250	-

<sup>1</sup> Grant in Aid ("GIA")

\*Budget figures are extracted from the 2012/13 Summary financial and performance outturn report presented to the Board on 15 May 2013.

The under spend against budget is due primarily to the unpredictable nature of activities associated with the establishment of a new body. The main areas of underspend include board fees and expenses (£0.027m), printing of corporate reports (£0.047) and direct support for panel (£0.010m).

Following a budget reforecast, Grant in Aid for 2012/13 was confirmed in January 2013 as £1.25million, against an initial allocation £2.250million. The reduction in Grant in Aid is a result large expenditure in areas such as training and expenses for Area Support Teams and panel members not occurring in 2012/13 due to a change in the 'go-live' date.

## Financial outlook – 2013/14 and beyond

The Financial Memorandum of the Children's Hearings (Scotland) Act provides the estimated cost distribution for arrangements under the Children's Hearing Bill. This includes the allocation set aside for CHS from 2012/13 until 2014/15.

The Scottish Government have confirmed Grant-In-Aid funding for 13/14 as £3.3m, with the 2013/14 draft budget as follows:

<b>CHS Draft Budget (approved in June 2013)*</b>	<b>2013/14 (CHS draft Budget)</b>
<b>EXPENDITURE</b>	<b>£m</b>
Staff costs	0.737
Board	0.079
Property Costs	0.056
Travel and Subsistence	0.015
Other Operating Expenses	0.567
Panel and AST Expenses	0.779
Panel and AST Training	0.645
Support for Hearings	0.117
Recruitment of Panel Members	0.265
Independent legal advice to hearings	0.040
<b>Total</b>	<b>3.300</b>

\*Budget figures extracted from Budget 2013/14 presented to the Board on 18th June 2013.

Staff costs are budgeted based on 13.6 establishment posts and on the basis of the draft 2013/14 pay remit. To support critical panel, area support team (AST) and other activity, the establishment posts will be supplemented in 2013/14 by agency and non-establishment posts to provide essential support over the forthcoming critical implementation period.

The budget for Board fees and expenses plus associated costs is based on expected Board activity for 2013/14, including provision for two additional Board members who have recently taken up office in March 2013.

Budgeted property costs include committed expenditure for the year based on the agreed Memorandum of Terms of Occupation for CHS' headquarters with National Records of Scotland (NRS).

Within other operating costs there is the cost of publishing the Panel and AST Handbook and the Practice and Procedural Manual (combined cost of £0.032million). There is also £0.05million to procure expert support for qualitative research. The single largest element of other corporate expenses, within other operating costs, is £0.102million in respect of shared services.

From the 'Go Live' date of 24 June 2013, CHS will assume responsibility for the payment of panel member expenses. The support for hearings budget of £0.117million is based on a schedule of planned events for



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2013/14. CHS has allocated £0.779million for panel and AST expenses (£0.317million for AST and £0.462million for panel members), however, the level of expenses in relation to panel members is a risk to CHS as they are demand led and difficult to predict. **Action Point 1.**

CHS is in the advanced stages of a procurement exercise for the design and delivery of core national training for panel and AST members. The CHS budget of £0.645million for panel and AST training is based on the estimated half-year costs (from September 2013) of training panel and AST members. Also included is £0.015million for the costs associated with accreditation.

# Section 3: Key areas of audit focus

Our audit followed the strategy set out in our Audit Plan which was presented to the Audit and Risk Committee. We confirm that there has been no cause for us to vary the planned scope of our work.

## 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	<p>In accordance with our audit plan, we have reviewed management's overall fraud arrangements and policies. We have reviewed a sample of journal entries (based on risk) and incorporated unpredictability into our testing of expenditure by extending our cut off and accruals samples.</p> <p>This work did not identify any errors that required adjustment to the financial statements.</p>
Recognition of operating expenditure	<p>We performed substantive testing on a sample of expenditure transactions and reviewed management's estimates of future expenditure, such as accruals. We have undertaken specific cut-off testing to identify potential unrecorded liabilities.</p> <p>This work did not identify any errors that required adjustment to the financial statements.</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 no financial misstatements to bring to your attention. A number of disclosure adjustments were identified and agreed with management.
Significant accounting principles and policies	Significant accounting principles and policies are disclosed in the notes to the financial statements. We will 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.
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 accruals. We are satisfied with management’s methodology. We will continue to review the assumptions used in estimating these so that it remains appropriate in future years.
Deficiencies in the internal control environment	The purpose of our audit was 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. No deficiencies were noted during our year end work performed.
Details of material uncertainties related to events and conditions that may cast significant doubt on CHS's ability to continue as a going concern	We have not encountered any material uncertainties which cast doubt upon the ability of CHS to continue as a going concern. CHS is a Non-Departmental Public Body (NDPB), which was established under the Children’s Hearings (Scotland) Act 2011. The organisation has one through a ‘shadow’ period and became fully operational on 24 June 2013.
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 CHS 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.

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# ***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 CHS's governance and accountability arrangements in our audit work. We gained an understanding of CHS'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 CHS's governance systems and structures below.

## **Corporate governance and internal control**

The Board is responsible for ensuring that CHS 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 is supported by the Audit and Risk Committee, which has responsibility for monitoring risk and internal control, and the Remuneration and Appointment Committee, which considers matters such as planning, human resources and remuneration.

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 weaknesses in the current system of internal controls.

## **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 CHS's high level arrangements for preventing and detecting instances of fraud and corruption. There are no matters we wish to bring to your attention concerning fraud.

All employees are required to read and sign a code of conduct upon commencing employment as part of their induction. This provides guidance on how employees are expected to behave and their ethical responsibilities as CHS employees. A financial manual is also in place, which details the processes which CHS employees should follow in order to ensure value for money and compliance with Scottish Government policies are maintained

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when entering into contracts and standing orders on behalf of CHS. CHS also has a whistle blowing policy in place.

## 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 CHS's arrangements that we need to identify in this report. All employees sign up to a code of conduct upon commencing employment outlining their responsibilities and ethical responsibilities.

## Risk Assessment

The Audit and Risk Committee oversee, on behalf of the Board, the risk management process through monitoring the implementation of the risk management policy. This includes reviewing the strategic risk register quarterly and as necessary, reviewing the work undertaken on identified high risk areas and the action plans to mitigate the effects of such risks.

CHS' corporate risk register is in the format prescribed by the Scottish Government. Following the last review by the Audit and Risk Committee the corporate risk register contains 16 risks, which are mapped against CHS' 4 outcomes.

2 of the risks have a residual risk rating of 12 and are therefore categorised as 'high' risk. These relate to risks of failing to finalise and agree the feedback loop the Association of Directors of Social Work (ADSW) and with the Convention of Scottish Local Authorities (COSLA) and risks relating to technology and secure information. CHS have identified key actions, timescales and senior risk owners to address these risks.

## Internal Audit

As described 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.

Internal audit completed three reviews within 2012/13:

- Budget setting and monitoring
- Risk Management
- ICT Health check (data security)

Due to the areas of internal audit focus in the year we did not place specific reliance on the report issued, but they did assist us in updating our risk assessment.

The annual Internal Audit opinion included within the Internal Audit annual report stated "Children's Hearings Scotland has a framework of controls in place that provides reasonable assurance regarding the effective and efficient achievement of the CHS's objectives and the management of key risks. Proper arrangements are in place, in the areas we have reviewed, to promote and secure value for money".

# Appendix 1: Action plan

We have identified one area for consideration during the course of our audit. Our recommendation is as follows:

No	Finding	Risk	Recommendation
1	CHS has allocated £0.779million for panel and AST expenses, split £0.317million for AST and £0.462million for panel members, however, the level of expenses in relation to panel members is a risk to CHS as they are demand led and difficult to predict. CHS has identified that the level of panel members' expenses is hard to predict as it is demand led.	The allocated budget for panel members expenses is insufficient leading to budget pressures in other areas	<p>Finance staff should monitor the level of panel members' expenses closely and report actual against budget to the Board as part of finance updates. Any concerns over available resources should be flagged to allow appropriate action to be taken.</p> <p><b>Management response:</b></p> <p>Agreed. Panel member expenses will be monitored closely and reported regularly against budget to both the CHS Board and Sponsor Team. As expenses are not always reported timeously, and as local authorities will invoice CHS quarterly in arrears, useable management information is not expected to be available until quarter two or three at the earliest.</p> <p><b>Implementation date:</b></p> <p>Quarter 2 or 3 of 2013/14 (dependent on the availability of management information).</p>



*This report has been prepared for and only for the Children's Hearings Scotland in accordance with the terms agreed with Audit Scotland in our engagement letter 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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