

# ***Scottish Children's Reporter Administration***

Annual Report to Board Members and  
the Auditor General for Scotland for  
the financial year ended 31 March  
2013

Board Meeting

26 September 2013

141 Bothwell Street  
Glasgow  
G2 7EQ

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

26 September 2013

Dear Sirs,

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

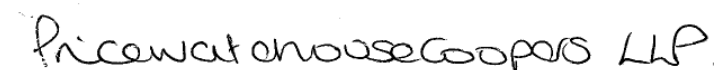
The primary purpose of this report is to communicate the significant findings arising from our external audit that we believe are relevant to those charged with governance and to meet our obligations, as set out within the Audit Scotland Code of Practice.

The scope and proposed focus of our audit work was summarised in our audit plan, which we presented to the Audit Committee on 20 February 2013. We have subsequently reviewed our audit plan and concluded that our original assessment remains appropriate. 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 Board meeting of the Scottish Children's Reporter Administration on 26 September 2013 to approve the financial statements.

We would like to take this opportunity to thank Scottish Children's Reporter Administration 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 external audit of the financial statements of the Scottish Children's Reporters Administration ('SCRA') for the year ended 31 March 2013.

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 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 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.

## 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 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 SCRA 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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## The audit process

We received a complete draft set of financial statements (except for the cashflow statement) within the timetable we agreed and working papers were of a good standard. 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 number of financial adjustments, as well as some disclosure amendments, were discussed and agreed with Management and these have been reflected in the final financial statements. There are no unadjusted differences for us to report.

## 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”.

# Section 2: Financial performance

## Financial performance 2012/13\*

<b>EXPENDITURE</b>	<b>2012/13</b>	<b>2011/12</b>
	<b>£000</b>	<b>£000</b>
Staff costs	(16,001)	(15,967)
Other expenditure	(8,014)	(6,930)
Depreciation and amortisation	(1,469)	(1,871)
	<hr/>	<hr/>
	(25,484)	(24,786)
<b>INCOME</b>	<hr/>	<hr/>
	474	375
<b>Net Expenditure</b>	(25,010)	(24,393)
Interest Payable	(5)	(3)
Interest Receivable	4	2
Pension Scheme Finance Cost	(570)	(1,159)
<b>NET EXPENDITURE BEFORE SCOTTISH GOVERNMENT FUNDING<sup>1</sup></b>	<hr/>	<hr/>
	(25,581)	(25,553)

\* extracted from the 2012/13 Statement of Comprehensive Expenditure.

SCRA had total available revenue resources for the financial year 2012/13 of £22.919million, comprising £22.445 million of Grant in Aid (GiA) and £0.474million of other income generated, for example from shared service costs, property rental income and local authority funded youth justice posts. The difference between available resources and net expenditure, which has no implications for ongoing operations, is largely attributable to three non cash items: depreciation of £1.469million, permanent diminution of £1.467million and pension fund costs of £0.570million.

Other expenditure has increased primarily due to the impairment of fixed assets by £1.467million following the valuation as at 31 March 2013. The Pension Scheme Finance Cost has decreased by £0.589million due to a decrease in both interest on pension obligation and expected return on assets.

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

## Performance against budget

	Actual 2012/13	Budget 2012/13	Variance
<u>Expenditure</u>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Staff Costs	16,001	16,059	(58)
Other Expenditure	8,014	6,593	1,421
Depreciation	1,469	3,000	(1,531)
<b>Total Expenditure</b>	25,484	25,652	(168)
<u>Income</u>			
Grant-In-Aid (Revenue)	22,445	22,445	-
Other Income	474	397	77
<b>Total Income</b>	22,919	22,842	77

The table shows a comparison of the financial accounts results with the approved budget. The variance of £0.245million comprises small underspends on staff costs (£0.058million), depreciation/impairment (£0.064million), other expenditure (£0.046million) and additional income (£0.077million).

## Pension Assumptions

The pension assumptions contained within Hymans Robertson Actuarial Report as at 31 March 2013 were compared to the equivalent assumptions provided by PwC Pension's Experts. All assumptions were within the acceptable ranges.

Falkirk Council Pension Fund 31 March 2013	Hymans Robertson Assumptions	PwC Pension's experts Acceptable Range
Rate of pension increases	2.8%	Linked to CPI inflation assumption - CPI has grown by 2.8% in the year to March 2013)
Rate of increase in salaries	1.0% p.a. until 31 March 2015, 5.1% thereafter	Movement in line with CPI trend
Rate of discounting scheme liabilities	4.5%	4.3% - 4.7%
Expected return on equities	4.5%	Should be set equal to the discount rate in this case 4.5%
Expected return on bonds	4.5%	Should be set equal to the discount rate in this case 4.5%
Expected return on property	4.5%	Should be set equal to the discount rate in this case 4.5%
Expected return on cash	4.5%	Should be set equal to the discount rate in this case 4.5%



<b><i>Longevity at 65 for current pensioners:</i></b>		
Men	23	23.1 (though mortality rates are scheme specific)
Women	25.8	23.5 (though mortality rates are scheme specific)
<b><i>Longevity at 65 for future pensioners:</i></b>		
Men	24.9	24.3 (though mortality rates are scheme specific)
Women	27.7	25.8 (though mortality rates are scheme specific)

## Financial outlook – 2013/14 and beyond

The SCRA Board approved the annual budget for 2013/14 on 21 March 2013 and the updated financial strategy 2013/2017 on 23 January 2013. The majority of SCRA's 2013/14 budgeted gross revenue expenditure is allocated to staff salaries (including pension costs). Employer's pension costs are increasing year on year as a result of pension legislation. Following a new law introduced by the Government, all employers are required to enrol their employees in a pension scheme if they are not already in one. A staged approach has been adopted, depending on the number of employees within an organisation. The implementation of pension's auto-enrolment from November 2013 (SCRA's deadline) has been estimated to cost SCRA around £0.060million per annum.

The 2013/14 budget is based on assumed revenue GiA of £21.3million (which was later confirmed to be £21.1million by the Scottish Government in April 2013) with a capital allocation of £1million. The 2013/14 budget represents a reduction in revenue GiA of £1million (5%) from the final 2012/13 GiA which included additional, one off GiA. The financial strategy 2013/17 has assumed a revenue reduction of 2.5% per annum in core GiA.

Since 2008/09 SCRA has managed to offset reductions in Grant in Aid through achieving significant efficiency savings including:

- 13% reduction in FTE posts and 25% reduction in Head Office posts - achieved through voluntary early retirement, voluntary redundancy and natural turnover.
- 69% reduction in management costs
- 12% reduction in Property costs – achieved through property rationalisation
- 50% reduction in IT costs - SCRA is now on the SCOTS platform and the cost of the new Case Management System is also lower than the previous system

Following these measures, it is a challenge for SCRA to continue to make further efficiency savings, without impacting on service delivery. A further strain will be put on SCRA as from 2013/14 the organisation is expected to implement its duties under the new Children's Hearings Scotland Act 2011 within existing resources. This is expected to result in additional work load and cost pressures resulting in further challenges for the organisation. **See Action 1, Appendix 1.**

# 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. 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 our assessment of risk) and examined management's accounting estimates for bias. We also incorporated unpredictability into our testing expenditure by selecting immaterial balances for testing and agreeing post year-end cash receipts to bank for a sample of immaterial debtors.</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 potentially 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 small number of financial adjustments were processed and also 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, valuations and pensions. 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 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. SCRA have received confirmation from the Scottish Government that there are no reasons to suggest that SCRA will not 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.

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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 SCRA's governance and accountability arrangements in our audit work. We gained 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 is supported by the Audit Committee, which has responsibility for monitoring risk and internal control, and the Remuneration Committee.

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 SCRA'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. SCRA has recently updated its standing financial instructions, which detail the processes which SCRA employees should follow in order to ensure value for money and compliance with Scottish Government policies are maintained when entering into contracts. SCRA also have a whistle blowing policy in place.

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2012/13 is also the first year in which SCRA will also participate in the National Fraud Initiative for the first time. The results of this exercise will be reported separately to the Audit Committee.

## 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. All employees sign up to a code of conduct upon commencing employment outlining their responsibilities and ethical responsibilities.

## Risk Assessment

SCRA has a risk management policy which was approved by the Board in May 2012. SCRA's Board has responsibility for risk management within SCRA, with the Audit Committee charged with ensuring that robust risk management arrangements are in place within SCRA. The Strategic and Operational Risk Registers are reviewed by the Executive Management Team and Operational Group, and are reviewed by the Audit six – monthly.

As at May 2013, SCRA's strategic risk register contained three risks which focus on: SCRA's business plan and capacity; developing and implementing a data solution for reporting and data sharing; and implementing SCRA's case management system across localities. Action plans and responsible officers have been allocated against each risk.

The Operational Risk Register has two risks which will be reviewed by the Operational Group in light of 2013/14 Locality Plans.

## 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 6 reviews within 2012/13:

- Financial Systems Healthcheck/Payments and Creditors
- Corporate governance and risk management
- Strategic planning/Best Value toolkit
- Cast Management
- Locality Visit
- Business Continuity Planning and IT Disaster Recovery

Due to the areas of internal audit focus for 2012/13 we did not place specific reliance on the report issued during the year, but they did assist us in our understanding of the risks facing SCRA and key activities.

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The annual Internal Audit opinion included within the Internal Audit annual report stated “The Scottish Children’s Reporter Administration has a framework of controls in place that provides reasonable assurance regarding the effective and efficient achievement of the SCRA’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 as follows:

No	Finding	Risk	Recommendation
1	Given the level of savings already generated, it will be a challenge for SCRA to continue to make further efficiency savings, without impacting on service delivery. A further strain will be put on SCRA as from 2013/14 the organisation is expected to implement its duties under the new Children's Hearings Scotland Act 2011 within existing resources. This is expected to result in additional work load and cost pressures resulting in further challenges for the organisation	Budget pressures impact service delivery	<p>Management should continue to review the level of savings in conjunction with future budget pressures. SCRA should continue to have ongoing dialogue with the Scottish Government Sponsor Team.</p> <p><b>Management response:</b></p> <p>SCRA is developing a Benefits Realisation Programme which will contribute to the long term sustainability of the organisation. In addition, SCRA is in dialogue with Scottish Government Sponsor Team in relation to influencing the outcome of SR13 and presentation of a business case for in year resources to support further changes to the workforce.</p> <p><b>Responsible Officer:</b></p> <p>Head of Finance and Resources</p> <p><b>Implementation date:</b></p> <p>September 2013</p>

*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 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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