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# *Children's Hearings Scotland*

Annual Report to Board  
Members and the Auditor  
General for Scotland

Year ended 31 March 2014



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

26 August 2014

Dear Sirs

We are pleased to provide you with our Annual Report to Board Members and the Auditor General for Scotland, on the results of our external audit of Children's Hearings Scotland for the year ended 31 March 2014. The main purpose of the report is to communicate the more significant matters arising from our external audit of the financial statements that we believe are relevant to those charged with governance.

We have completed our external audit work and have issued an unqualified audit opinion on the financial statements for the year ended 31 March 2014 on 26 August 2014.

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

PricewaterhouseCoopers LLP

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# 1 *Executive Summary*

We have pleasure in presenting this report relating to our audit of the financial statements of Children's Hearings Scotland ('CHS') for the year ended 31 March 2014.

We have discussed this report with the Interim 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.

## Management responsibility

It is the responsibility of the Body and the Chief Executive, as Accountable Officer, to prepare the financial statements in accordance with the Children's Hearings Scotland Act 2011 and directions made there under. 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 the Body and its expenditure and income for the year ending 31 March 2014; and
- preparing a Board' Report, Strategic Report, a Governance Statement and a Remuneration Report.

## Auditors' responsibilities

Our responsibilities in accordance with the Code of Audit Practice are to provide you with an audit report stating whether, in our opinion 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 the Body and its expenditure and income for the year;
- 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).

We are also required to review and report as necessary on other information published with the financial statements, including the directors' report, annual governance statement, statement on internal control or statement on internal financial control and the remuneration report.

## Audit status

Our audit work on the draft financial statements for the year ended 31 March 2014 was carried out over a two week period commencing 19 May 2014. The audit is complete, subject to the following outstanding matters:

- Final review of the financial statements;
- Approval of the financial statements and letter of representation; and
- Completion procedures, including subsequent events review and bank confirmation letter.

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## Audit overview and conclusions

Subject to the satisfactory resolution of the matters set out above, the finalisation of the financial statements and their approval by the Audit Committee, we expect to issue an **unqualified** audit opinion for CHS. Our opinion is also unqualified in respect of the Remuneration Report and of consistency of the Board Report with the financial statements.

## Findings arising from the audit

Section 2 of this report summarises the findings arising from our audit.

## Misstatements and significant deficiencies in internal control

All misstatements identified during the audit have been adjusted within the accounts; therefore, we have no summary of uncorrected misstatements to present in this report. Please see Appendix 1 for our control recommendations raised.

## Other areas of feedback

Section 3 contains other matters for the attention of those charged with governance, including elements of communication required under International Standard on Auditing (ISA) 260 (revised and re-drafted) “Communication with those charged with governance”.

We look forward to the opportunity to discuss the report with you at the Audit Committee meeting on 30 June 2014.

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

## 2 *Audit findings*

Our audit followed the strategy set out in our Audit Strategy document presented to the Audit Committee on 25 February 2014. 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 <b>Significant risk</b>	In accordance with our audit plan, we reviewed significant journals and examined management's accruals estimate for potential bias.  <b>We can confirm that our work in this area did not identify any errors that required adjustments to the financial statements.</b>
Recognition of operating expenditure <b>Significant risk</b>	We performed substantive testing on a sample of expenditure transactions and reviewed management's estimates of future expenditure, such as accruals. We also performed cut-off testing to identify potential unrecorded liabilities.  <b>We can confirm that our work in this area did not identify any errors that required adjustments to the financial statements.</b>

# 3 *Communications required under ISA 260*

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

<b>Requirement</b>	<b>Delivery of requirement</b>
Uncorrected and corrected misstatements	We did not identify any misstatements which have not already been adjusted by CHS in the financial statements presented for approval. 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. The matters being reported are limited to those deficiencies that we have identified during the audit and that we have concluded are of sufficient importance to merit being reported to you. An Action Plan is included in Appendix 1.
Details of material uncertainties related to events and conditions that may cast significant doubt on the Children’s Hearings Scotland’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 became fully operational on 24 June 2013.
Significant difficulties encountered during the audit	We did not encounter any significant difficulties during the audit.
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 Children’s Hearings Scotland 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.

# 4 Financial Performance

## Financial performance 2013/14

<b>EXPENDITURE</b>	<b>2013/14</b>	<b>2012/13</b>
	<b>£m</b>	<b>£m</b>
Staff costs	(0.852)	(0.674)
Other administration costs	(2.448)	(0.478)
	<u>(3.300)</u>	<u>(1.152)</u>
<b>INCOME</b>		
Other Finance Income	0	0.001
	<u>3.300</u>	<u>1.151</u>
<b>NET EXPENDITURE BEFORE SCOTTISH GOVERNMENT FUNDING<sup>1</sup></b>		
	<u>3.300</u>	<u>1.151</u>

Expenditure in 2013/14 increased by £2.148million from the prior year reflecting the significantly increased activity in the year as CHS became fully operational as of 24 June 2013. The biggest impact on spend was in 'other administration costs' which includes costs for Panel Members and Area Support Teams' recruitment, training and expenses. The increase in both Scottish Government Funding and expenditure is consistent with our understanding of how CHS have delivered services since becoming fully operational.

The results for the year show Net Operating Expenditure of £3.300million against Grant in Aid funding of £3.300million.

## Financial outlook – 2014/15

The Scottish Government have confirmed Grant-In-Aid funding for 2014/15 as £3.7million. This is a 12% rise on the 2013/14 allocation which reflects the fact that CHS was fully operational for just over three quarters of 2013/14. We have not identified any key indicators or been made aware of any factors that would suggest that the Body will struggle to meet its financial targets.

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



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# 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.

## 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 performance appraisal framework, 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 consider that appropriate governance arrangements and reporting are in place.

The purpose of the 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. Based on audit work performed we consider the systems of internal control in place appropriate for the needs of CHS.

## 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. Based on audit work performed we consider controls in place to prevent and detect fraud or corruption to be suitable for the operations of CHS. CHS have in place an appropriate code of conduct and whistleblowing policy.

## 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.

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## 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 and 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 11 risks, each of which are mapped against CHS' 4 outcomes.

## 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 have performed four reviews within 2013/14:

- Financial Planning and Budget Management;
- Strategic and Operational Planning;
- Management of Panel Members and Area Support Teams (to be concluded); and
- Information Governance (to be concluded)

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

Scott Moncrieff in their role as Internal Auditors have included their opinion 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".

Based on audit work performed we consider the Internal Audit function within CHS to be appropriate for the need of CHS.

# *Appendices*

# Appendix 1: Action Plan

## Current year recommendations

Finding	Risk	Recommendation
<p>CHS has a number of significant contracts in place and it is expected that the number of contracts is likely to increase in line with the levels of activity. We identified that there is currently no Contracts Register in place to help monitor these contracts. There was a delay in locating contracts during the audit due to a lack of clarity as to who manages the contract and where the contract is stored.</p>	<p>Contracts may not receive appropriate management oversight.</p>	<p>Management should develop a Contracts Register which should contain all the key information (e.g. value/term of contract/responsible officer) for all significant contracts.</p> <p>Criteria for defining contracts that are significant should be agreed including consideration or:</p> <ul style="list-style-type: none"> <li>• Contract value;</li> <li>• Risk to CHS; and</li> <li>• Length of contract.</li> </ul> <p><b>Management response:</b></p> <p>The Interim Director of Finance and Corporate Services fully accepts that it is good practice to have a contract register and will develop this as a priority.</p> <p><b>Implementation date:</b></p> <p>September 2014</p>
<p>We performed testing over Starters and Leavers during 2013/14. We noted that for all five new employees in the year, the correct procedure of completing the New Start Notification Form and authorised by the National Convener had not been undertaken. However, this issue is isolated due to the particular member of staff who was performing the role has now since left the organisation. We have obtained evidence that the new staff member, who has responsibility for completing these forms, is fulfilling this role appropriately having reviewed an instance of a new employee having been appropriately processed.</p>	<p>There may not be appropriate evidence of authorisation for new employees.</p>	<p>Management should ensure that formal control procedures are adhered to. For each new employee, a new start notification form should be completed and then signed off by the National Convener. The completed forms will then be passed to SCRA for processing.</p> <p><b>Management response:</b></p> <p>The Interim Director of Finance and Corporate Services acknowledges the importance of this control and notes that this control is now in place again and he does not anticipate any further lapses going forward.</p> <p><b>Implementation date:</b></p> <p>Already implemented</p>

## Status of prior year recommendations

The following table details the outstanding internal control recommendations identified during our 2012/13 with a current year update.

Finding, recommendation and management response	2013/14 update
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**Finding**

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.

**Recommendation**

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.

**Management response**

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.

We note that this is identified as a risk on the CHS Risk Register and is monitored on an ongoing basis.

An accrual was estimated in the 2013/14 accounts for the level of Panel Member expenses based on Q2-Q4 data. It is recognised that this is an area where more meaningful management information over the next year will help reduce the level of uncertainty.

**Status:**

Implemented

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