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

Annual Report to the Board
and the Auditor General for
Scotland

Year ended 31 March 2014



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

21 August 2014

Dear Sirs

We are pleased to provide you with our Annual Report to the Board Members and the Auditor General for Scotland, on the results of our external audit of Scottish Children's Reporter Administration (SCRA) 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 the majority of our audit work and expect to be able to issue an unqualified audit opinion on the financial statements on 25 September 2014. At the time of writing, the key outstanding matters, where our work has commenced but is not yet finalised, are;

- Completion activities;
- Representation letters; and
- Subsequent events review

Once again we offer thanks to Management and staff for their assistance with our external audit work.

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 the SCRA for the year ended 31 March 2014.

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 and subsequently the 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 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 the Body and its expenditure and income for the year ending 31 March 2014; and
- preparing Management Commentary, 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 strategic report, directors' report, statement of governance, and the remuneration report.

1.1 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 9 June 2014. The audit is complete, subject to the following:

- Completion activities;
- Representation letters; and
- Subsequent events review

1.2 Audit overview and conclusions

We have issued an **unqualified** audit opinion for the SCRA.

1.3 Findings arising from the audit

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

1.4 Systems of Internal Control

The Chief Executive Officer in conjunction with management and the Audit Committee is responsible for developing and implementing systems of internal financial control and having in place proper arrangements to monitor their adequacy and effectiveness in practice.

We review these arrangements for the purposes of our audit of the financial statements and for our review of the annual governance statement and report to you any significant deficiencies in internal control that we find during our audit.

We did not identify any significant matters that, in our professional judgement, we believe we should bring to your attention.

Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work in accordance with the Code, and may not be all that exist.

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

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. There were no control deficiencies identified in the current year.

1.5 Financial Performance

The Body's key financial performance for the period is as follows:

- The net expenditure before Government funding was £26.257m, which was an increase of 6% from £24.780m in 2012/13.
- Total tax payers deficit for the year was £19.920m, which was an increase of 42% from £14.042m in 2012/13. This is primarily caused by a £2.606m actuarial loss on the pension liability recognised in the year, a £1.198m decrease in GiA funding compared to 2012/13 and a £1.477m increase in net expenditure.
- The budget for 2014/15 forecasts revenue GiA funding of £20.800m and capital GiA funding of £0.500m which is a decrease of £0.300m (1.4%) and £0.500m (50%), respectively, compared to 2013/14 (£21.100m revenue and £1.000m capital). 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 for 2014/15.

1.6 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".

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

SCRA have participated in the 2013/14 National Fraud Initiative program and have taken action to follow up identified matches on a timely basis.

We look forward to the opportunity to discuss this report with you at the Audit Committee meeting on 21 August 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 throughout our work.

2 *Audit findings*

Our audit followed the strategy set out in our Audit Strategy document presented to the Audit Committee on 20 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 Significant risk	<p>In accordance with our audit plan, we reviewed significant journals and examined management's accounting estimates for potential bias.</p> <p>We can confirm that our work in this area did not identify any errors that required adjustments to the financial statements.</p>
Revenue recognition Significant risk	<p>We examined and tested the process through which management has identified and quantified any income that needed to be accrued (or deferred) at year end.</p> <p>We can confirm that our work in this area did not identify any errors that required adjustments to the financial statements.</p>
Recognition of operating expenditure Significant risk	<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>We can confirm that our work in this area did not identify any errors that required adjustments to the financial statements.</p>

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

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".

Requirement	Delivery of requirement
Uncorrected and corrected misstatements	We did not identify any misstatements which have not already been adjusted by the SCRA in the financial statements presented for approval.
Significant accounting principles and policies	Significant accounting principles and policies are disclosed in the notes to the financial statements. We will ask board members 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 the SCRA's ability to continue as a going concern	We have not encountered any material uncertainties which cast doubt upon the ability of the SCRA to continue as a going concern.
Significant difficulties encountered during the audit	We did not encounter any significant difficulties which would prevent us from undertaking 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 the 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.

Governance and Performance

All Accountable Officers are required to demonstrate economy, efficiency and effectiveness and the achievement of Best Value in the use of resources. SCRA is accountable both to Scottish Ministers.

We have assessed the Body's overall governance arrangements including a review of Board structure and minutes, financial reporting to the Board, and risk management. SCRA has a well-developed approach to risk management to ensure that organisational goals remain on track. This process has continued to be refined on an ongoing basis with this being considered regularly by the Board and the Audit Committee. Appropriate evidence of activity has been provided by the Body.

The Code of Audit Practice requires us to review and report on the Body's Annual Governance Statement. The Body has used the appropriate format for its Statement and has outlined the processes it had employed to identify and evaluate risks. In addition, key elements of the Body's control framework have been highlighted.

Based on our normal audit procedures, **we agree that** the disclosures contained in the Statement are consistent with our audit findings. We consider that appropriate governance arrangements and reporting are in place.

Scott Moncrieff in their role as Internal Auditors of SCRA have completed their audit plan for 2013/14 and have concluded that:

SCRA has a framework of controls in place that provides reasonable assurance regarding the effective and efficient achievement of the organisation's objectives and the management of key risks.

Proper arrangements are in place, in the areas we have reviewed, to promote value for money, deliver best value and secure regularity and propriety in the administration and operation of the organisation.

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

We review these arrangements for the purposes of our audit of the financial statements and for our review of the annual governance statement and report to you any significant deficiencies in internal control that we find during our audit.

Appendices

Appendix 1: Action plan

Status of prior year action plan

Finding, recommendation and management response	2013/14 update
<p>Finding</p> <p>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</p> <p>Recommendation</p> <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>Management response:</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>During 2013/14 SCRA secured a standstill revenue funding for 2014/15 and 2015/16. In addition £840k of in year revenue resources were provided by Scottish Government of which £560k was provided to support further changes to the workforce.</p> <p>SCRA has identified 2015/16 revenue budget pressures to Sponsor Team in relation to VAT on shared service IT costs, employers pension cost increases and Benefits Realisation Savings targets.</p>

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