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

Annual Report to Those Charged  
with Governance and the Auditor  
General for Scotland

September 2015

Year ended 31 March 2015



PricewaterhouseCoopers  
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The Audit Committee  
Scottish Children's Reporter Administration  
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September 2015

Ladies and Gentleman,

We are pleased to enclose our report in respect of our audit for the year ended 31 March 2015. The primary purpose of this report is to communicate the significant findings arising from our audit that we believe are relevant to those charged with governance.

The scope and proposed focus of our audit work was summarised in our audit plan, which we presented to the Audit Committee in February 2015. We have subsequently reviewed our audit plan and concluded that our original risk assessment remains appropriate. The procedures we have performed in response to our assessment of significant audit risks are detailed in Section 2.

We have completed our audit work and expect to be able to issue an unqualified audit opinion on the financial statements on 24 September 2015 subject to our final completion procedures including subsequent events review and receipt of the signed letter of representation from management.

Yours faithfully

PricewaterhouseCoopers LLP

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# ***Section 1. Executive summary***

## **Introduction**

We set out in this report our significant findings from our audit of the Scottish Children’s Reporter Administration (“SCRA”) for 2014/15, together with those matters which auditing standards require us to report to you as “those charged with governance” of SCRA.

We carried out our audit work in line with our 2014/15 audit plan that we presented to you in February 2015. Our audit is not designed to identify all matters that may be relevant to you. Accordingly, the audit does not identify all such matters. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

## **Framework for Our Audit**

Our audit is conducted in accordance with Auditing Standards (International Standards on Auditing (“ISAs”) (UK and Ireland)) and the Code of Audit Practice (“the Code”).

The Code explains how external auditors should carry out their functions under the Public Finance and Accountability (Scotland) Act 2000. The audit of financial statements is covered by engagement and ethical standards issued by the UK Auditing Practices Board (APB), so the Code focuses more on the wider functions of public sector auditors. We have conducted our audit in accordance with the relevant requirements of the Code.

## **Respective Responsibilities of Management and Auditors**

### ***Management***

It is the responsibility of the Board and the Chief Executive, as Accountable Officer, to prepare the financial statements in accordance with paragraphs 19 and 20 of Schedule 3 of the Children’s Hearing (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 entity and its expenditure and income for the year ended 31 March 2015; and
- preparing a Directors’ Report, a Strategic Report, a Statement of Governance 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:

- give a true and fair view of the financial position of the entity and its expenditure and income for the year;
- have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
- the information which comprises the annual report included with the financial statements is consistent with the financial statements; and
- 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 within the financial statements, including the Directors' Report, Statement of Governance and the Remuneration Report.

## Financial Statements

We have completed our audit work and will issue an unqualified audit opinion on the annual accounts on 24 September 2015.

As a result of our work, we proposed a number of financial and disclosure audit adjustments to the draft financial statements. All identified misstatements were corrected by management meaning no uncorrected misstatements remain in the final financial statements.

## Financial performance

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

- Net expenditure before Scottish Government funding of £26.400 million as at 31 March 2015, compared with net expenditure before Scottish Government funding of £26.257 million as at 31 March 2014. The increase of £0.143 million in the year is the net impact of the following movements:
  - an increase in Staff costs of £0.403 million;
  - a decrease in Other expenditure of £0.380 million; and
  - a decrease in Income of £0.211 million.
- Net liabilities of £28.281 million as at 31 March 2015, compared with net liabilities of £19.920 million as at 31 March 2014, with the increase in liabilities of £8.361 million in the year being largely attributed to:
  - an increase of £6.240 million during the year in pension liability.

## Findings arising from the audit

We have responded to the matters identified as part of our audit plan, namely the significant risks identified in relation to the risk of management override of controls and the risk of fraud in expenditure recognition. We have detailed the audit procedures performed in response to these identified risks.

In addition, we have discussed the following other areas of audit focus within this report:

- **Property, plant and equipment valuations** - during the year all land and buildings were valued as at 31 March 2015 by independent valuers Ryden. Changes in market prices resulted in a decrease in the reported value of the SCRA's asset base, and resulted in a cost to the Statement of Comprehensive Net Expenditure Statement of £0.202m;
- **Assets held for sale** - as at 31 March 2015, SCRA had £0.480 million of Assets held for sale recognised in its Statement of Financial Position (2013/14: £nil) in relation to a building located at Gladstone Place, Stirling;
- **Pensions** - an actuarial valuation was performed by Hymans Robertson as at 31 March 2015 resulting in a year end net pension liability of £34.739 million (2014: £28.499 million); and
- **Exit packages** - Four exit packages totalling to £0.247 million were agreed during 2014/15 (2013/14: 16 exit packages, £0.436 million).

Please refer to Section 2 of this report for further details of the above areas.

## Misstatements and significant audit adjustments

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.

## Action Plan

We have highlighted 2 recommendations for SCRA within our Action Plan which can be seen in Appendix 2 of this report and which were identified by the audit team as part of the audit process.

We would like to take this opportunity to express our thanks for the co-operation and assistance we have received from the management and staff of Scottish Children’s Reporter Administration throughout our work.

## Section 2: Significant audit and accounting matters

We set out in our audit plan our assessment of the areas of significant risk in the financial statements. We have reconsidered our approach and concluded that it remains appropriate. We have set out below our response to those significant risks along with other arising from our audit.

### Matters identified in our audit plan

Set out below is a summary of our response to matters identified in our audit plan:

Matter arising	Audit response
<p><b><i>Fraud and management override of controls</i></b>                      ISA (UK&amp;I) 240 requires that we plan our audit work to consider the risk of fraud, which is presumed to be a significant risk in any audit.                      This includes consideration of the risk that management may override controls in order to manipulate the financial statements.</p>	<p>In response to this risk;</p> <ul style="list-style-type: none"> <li>• We tested high risk manual journals by identifying the business rationale for these transactions, agreeing the journals to supporting documentation and verifying journals had been appropriately authorised;</li> <li>• We examined management’s accounting estimates for bias and performed detailed testing over accruals and pension assumptions;</li> <li>• Evaluated the business rationale underlying significant transactions to ensure we agreed with the accounting treatment applied by management, particularly in relation to the PPE valuation and the pension actuarial valuation performed during the year ; and</li> <li>• We performed unpredictability testing over staff expense claims to ensure claims were recorded correctly and appeared to be appropriate. In addition we tested the classification of legal expenses to ensure the classification applied was appropriate.</li> </ul> <p>Our work did not identify any material errors that required adjustment to the financial statements.</p>



Matter arising	Audit response
<p><b>Recognition of expenditure</b> Under ISA (UK&amp;I) 240 there is a (rebuttable) presumption that there is a risk of fraud in revenue recognition. As SCRA is wholly funded through Scottish Government “Grant in Aid” income, the risk of fraud in revenue recognition has been rebutted for SCRA.</p> <p>However for public sector bodies we extend this risk to the risk of fraud in expenditure recognition. There is a risk that SCRA could adopt accounting policies or treat expenditure transactions in such a way as to lead to material misstatement in the reported expenditure position.</p>	<p>In response to this risk;</p> <ul style="list-style-type: none"> <li>• We evaluated and tested the accounting policy for expenditure recognition to ensure that it is consistent with the requirements of the International Financial Reporting Standards (IFRSs), as adopted by the European Union, and as interpreted and adapted by the 2014/15 Government Financial Reporting Manual (FRM);</li> <li>• We performed substantive testing on a sample of expenditure transactions and confirmed with reference to supporting documentation that each was recorded at the correct value, in the correct accounting period and was posted correctly within the accounts;</li> <li>• We performed substantive cut-off testing on a sample of expenditure transactions posted in the month pre year end and the month post year end and confirmed with reference to supporting documentation that each item tested was recorded at the correct value, in the correct accounting period and was posted correctly within the accounts;</li> <li>• We identified high risk manual journals posted to expenditure accounts and identified the rationale for these transactions, agreed details to supporting documentation and verified appropriate authorisation; and</li> <li>• We reviewed estimates for expenditure such as accruals for example, to ensure that it was accounted for on an accurate basis and in the proper period.</li> </ul> <p>A control recommendation was identified as a result of our accruals testing (see details in Appendix 2 of this report). With the exception of this control recommendation, we did not identify any issues to report to you as a result of our work.</p>

## Other areas of audit focus

### *Property, plant and equipment valuations*

During the year all land and buildings were valued as at 31 March 2015 by independent valuers Ryden in accordance with Royal Institute of Chartered Surveyors Valuation Standards on the basis of existing use value. Changes in market prices resulted in a revaluation decrease in the Statement of Comprehensive Net Expenditure Statement of £0.202m.

We have reviewed the assumptions used by the Ryden in relation to the assets that have been valued in year and having consulted with our own valuation experts, consider with reference to external benchmarks, that the basis and the assumptions used in the valuation are reasonable.

We reviewed the way in which management accounted for the revaluation exercise and agree with the treatment applied.

No issues were identified as a result of our testing of the PPE valuation exercise.

*Assets held for sale*

As at 31 March 2015, SCRA had £0.480 million of “Assets held for sale” recognised in its Statement of Financial Position (2013/14: £nil).

The assets refer to a building owned by SCRA located at Gladstone Place, Stirling. Under IFRS 5, a property is derecognised and held for sale when all of the following criteria have been met:

- a management decision has been made to dispose of the property;
- the property is being actively marketed for sale;
- the property is being marketed at a reasonable price in comparison to fair value; and
- the sale is highly probable within 12 months of classification as held for sale.

We have performed audit procedures to confirm that all of the above criteria have been met. We note that the building was valued at 31 March 2015 by independent valuers Ryden in accordance with the Royal Institute of Chartered Surveyors Valuation Standards. We agree with management’s treatment of this asset.

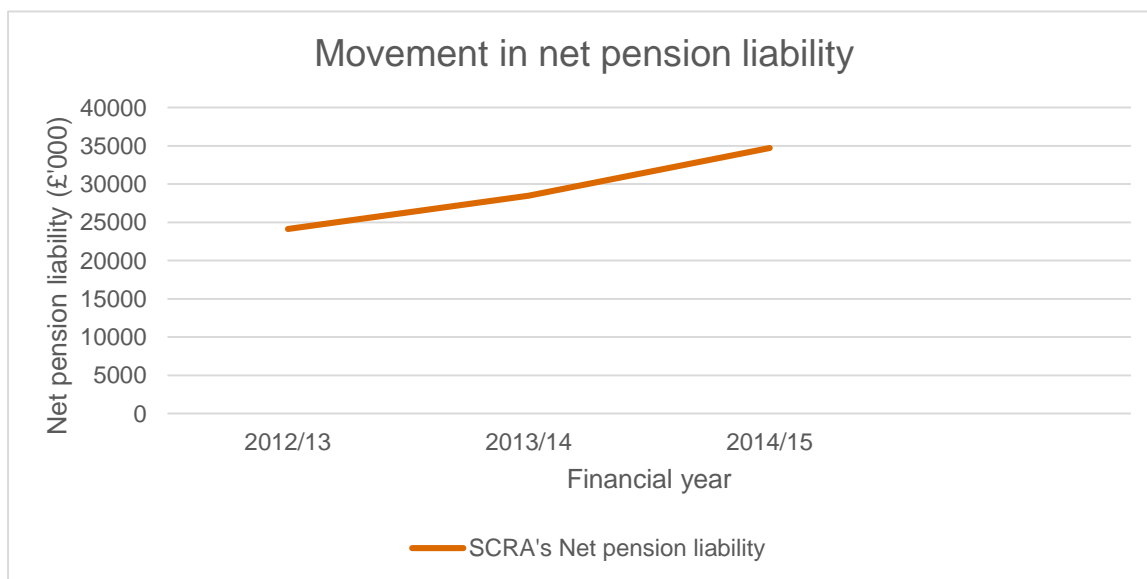
*Pensions*

SCRA has an agreement with Falkirk Council under which all staff are eligible to enter the Local Government Pension Scheme managed by the Council in accordance with scheme rules. It is a defined benefit scheme providing pension benefits and life assurance for all staff members.

SCRA’s share of the Falkirk Council Pension Fund as at 31 March 2015 is a net pension liability of £34.739 million (2014: £28.499 million) having increased by £6.240 million during 2014/15.

Although assets increased in value in this period to £81.877 million from £70.612 million in 2013/14, an increase of £11.265 million (16%), the value of the liabilities has increased to £116.616 million from £99.111 million in 2013/14, an increase of £17.505million (18%).

The chart below shows the movement in your net pension liability over recent years.



As part of our audit work, we undertook work to satisfy ourselves that the pension liability had been appropriately calculated. In particular, we obtained confirmation of the pension assets held and tested the accuracy of the census data held by the pension fund and used to calculate the pension liability arising.

An actuarial valuation was performed by Hymans Robertson as at 31 March 2015. This initial valuation increased the pension liability from £28.499 million to £45.226 million. Management reviewed the assumptions used and raised concerns in respect of 2 assumptions as follows: the pension increase rate; and the salary increase rate. Management requested that these assumptions be amended to be more reflective of SCRA as an organisation and as a result the following changes were made:

	<b>Initial assumptions</b>	<b>Revised/Final assumptions</b>
Pension increase rate	2.4%	2.3%
Salary increase rate	3.8%	3.0%
Discount rate	3.2%	3.2%
<b>Net pension liability</b>	<b>£45.226 million</b>	<b>£34.739 million</b>

As a result of these changes, the revised net pension liability reduced by £10.5 million. PwC’s actuarial specialists reviewed the revised assumptions and confirmed that they were appropriate and fell within the expected ranges.

In addition we have benchmarked the above revised/final assumptions against a range of other schemes with March 2015 year ends. Please see the results of our benchmarking exercise attached in Appendix 3 of this report, with a summary of the results presented in the table below. Please note that this exercise covers a number of clients reporting as at 31 March 2015, including schemes with various durations.

<b>Key assumption</b>	<b>Benchmarked assessment</b>
<b>Discount rate</b>	Prudent
<b>Inflation (RPI)</b>	Prudent
<b>RPI/CPI differential</b>	Prudent
<b>Mortality- future pensioners</b>	Mid-range to prudent
<b>Mortality- current pensioners</b>	Mid-range to prudent

In overall terms we are satisfied that the assumptions adopted by SCRA are reasonable, and our testing of input data and pension scheme assets did not identify any errors.

No further issues were identified as a result of our testing of the net pension liability.

*Exit packages*

Four exit packages totalling to £0.247 million were agreed during 2014/15 (2013/14: 16 exit packages, £0.436 million).

We have agreed the exit package amounts recognised in the accounts to supporting documentation and ensured they were subject to appropriate approval. We have also reviewed the disclosures within the annual report and accounts.

We are satisfied that the payments made by SCRA were appropriate and have been disclosed within SCRA’s annual report and accounts for 2014/15 in accordance with the requirements of the FReM.

## Misstatements and significant audit adjustments

There are no uncorrected misstatements arising from our audit to report to you.

One significant adjustment which was proposed and corrected within the final set of accounts relates to the revaluation of fixed assets and how the gain/loss on revaluation was calculated.

	DR £000	CR £000
Property, plant and equipment	-	309
Revaluation Reserve	245	-
Loss on revaluation	62	-

## Qualitative aspects of accounting practices

### Financial statement disclosures

We have also reviewed, and tested, the material disclosures in the financial statements. We identified some errors upon review of the financial statement disclosures; however these have been agreed with management and updated within the final financial statements accordingly. We did not identify any issues to report to you as a result of our work in this area.

### Governance Statement

The Financial Reporting Manual requires the Chief Executive to sign a Statement of Governance which covers all controls including financial, operational, compliance and the management of risk.

We reviewed the Statement of Governance and based on our normal audit procedures, we do not disagree with the disclosures contained within the Statement.

## Materiality

We have conducted our work in accordance with the materiality levels detailed below. We have applied a de-minimus level of £25,200. This is the level above which all uncorrected misstatements are reported to the Audit Committee.

We note that our final overall materiality calculated below at £504,600 has decreased from the amount of £513,000 communicated in our Audit Plan presented to the Audit Committee in February 2015. The decrease in the overall materiality of £8,400 is due to our final materiality calculation being based on the actual year end financial statements as opposed to our earlier calculation in February 2015 which was based on budgeted expenditure for the year. The change is deemed minimal and has not impacted our planned audit approach in any way.

	£
<b>Overall materiality</b> – This is the amount we have applied in assessing the overall impact on the financial statements of potential adjustments	<b>£504,600</b>
<b>Performance materiality</b> - We have applied this to direct the amount of work performed over each financial statement line item – for example in calculating sample sizes	<b>£378,450</b>
<b>De-minimus posting level</b> - Under ISA (UK & I) 450, we are required to report to the Audit Committee on all unadjusted misstatements in excess of a ‘de-minimus’ or ‘clearly trifling’ amount	<b>£25,230</b>



## Section 3. Financial performance

### Financial targets

**Table 1: Financial targets summary 2014/15**

	Outturn £ 000	Budget £ 000	Underspend/ (Overspend) £ 000
<b>Total Capital Resource</b>	526	500	(26)
Operating Expenditure (Cash)	21,414	21,158	(256)
Depreciation / Impairments (Non-cash)	2,529	2,750	221
<b>Total Operating Resource</b>	23,943	23,908	(35)
<b>Annually Managed Expenditure Limit</b>	2,457	1,500	(957)

SCRA's key areas of expenditure in 2014/15 included:

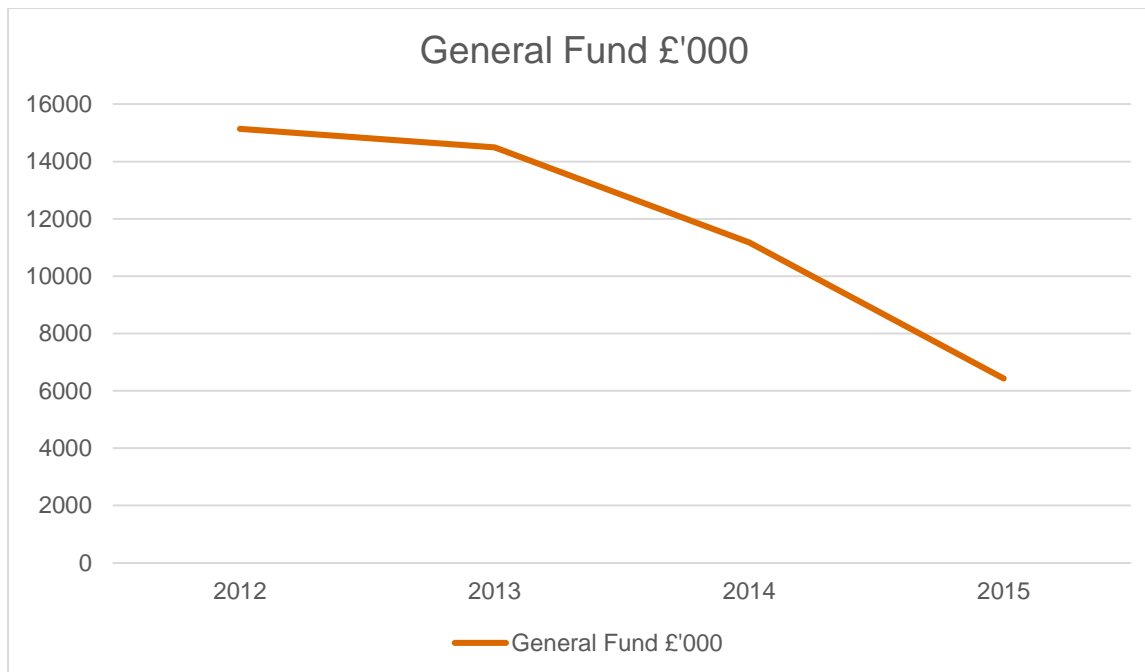
- Staff costs (£17.418million, 68% of total operating expenditure) – Staff costs have increased by £403,000 from the prior year. This increase was due salary increases and progression, partly offset by a decrease in voluntary severance costs. There was also a significant increase on the IAS 19 adjustment to pension scheme contributions (£1.116million in 2014/15 compared to £0.687million in 2013/14).
- Other expenditure (£5.588million, 22% of total operating expenditure) – although other operating charges have decreased by £380,000 from the prior year, this has not been enough to offset the decrease in GiA funding each year. The significant cost category which had a decrease compared to prior years was property costs (including rental payments) which decreased from £1.872million in 2013/14 to £1.669million in 2014/15.
- Annual Managed Expenditure (AME), (being IAS 19 costs) – These are determined each year by actuarial calculations. SCRA had an AME budget of £1.500million for 2014/15; however actual IAS 19 costs of £1.166million (adjustment to pension scheme contributions, included in staff costs above) and £1.291million (pension scheme finance cost) were incurred in the year.

**Table 2: Movement in the general fund**

	31 March 2015 £ 000	31 March 2014 £ 000	31 March 2013 £ 000	31 March 2012 £000
<b>General Fund</b>	<b>6,435</b>	<b>11,177</b>	<b>14,494</b>	<b>15,136</b>

As detailed in Table 2 above, the SCRA general fund balance decreased during 2014/15 to £6.435 million, a decrease of £4.742 million from the prior year and continues the trend of decreasing reserves in recent years.

The chart below shows the movement in SCRA’s general fund over recent years:



We discussed the decreasing general fund balance with management. Management explained that the decreasing general fund is largely due to two areas of expenditure: depreciation and amortisation and pension scheme costs. Management explained that in recent years amortisation charges have increased due to the addition of the new Case Management System (CMS). Amortisation in relation to the CMS system is circa £1.000 million each year, with a further two full years of amortisation anticipated in 2015/16 and 2016/17. In addition IAS 19 adjustment to pension contributions in 2014/15 were £1.166 million (2013/14: £0.687 million) and pension scheme finance costs were £1.291 million (2013/14: £1.205 million). The above amounts are not funded through GiA, having a direct impact upon the general fund balance each year.

As the general fund balance as at 31 March 2015 is £6.435 million and £8.059 million of reserves have been utilised over the past two years, management should consider SCRA’s long term strategy and the ways in which the organisation will be funded in future years. We have identified a recommendation in relation to this matter – see Appendix 2 for further details.

## Efficiency savings

The Scottish Government has set an overall expectation of 3% efficiency savings for public sector bodies. SCRA has yet to formally agree its achieved efficiencies for the 2014/15 year; however, management confirmed that it believes the target has been achieved. SCRA anticipates that the 2014/15 target will be met through Voluntary Severance, procurement and property cost savings, as well as shared service income.

## Financial sustainability

Financial sustainability has become a key matter for consideration by all public sector entities and it is vital that consideration of longer term financial planning is undertaken.

SCRA has set a break even budget for 2015/16 as follows:

**Table 3: 2015/16 Financial Plan**

SCRA	2015/16 Planned Budget £ 000
Grant in Aid (cash)	20,800
Other Income	482
<b>Total income</b>	<b>21,282</b>
<b>Total operating costs</b>	<b>21,282</b>
<b>Surplus / (Deficit)</b>	<b>0</b>

Grant in Aid funding for 2015/16 has remained the same as 2014/15, with other income also broadly in line with last year. Total operating costs (excluding depreciation/impairments and IAS 19 charges) are budgeted to decrease by £544,000 compared to the prior year, primarily as a result of forecast saving in relation to employee costs and supplies. Voluntary Severance funding of £400,000 will be provided by the Scottish Government in 2015/16. This is based on 6 full time equivalent posts and is projected to generate recurring savings of £289,000. Supplies and Services savings are across a range of budget lines, particularly IT costs, where work is ongoing to review the value for money of 2 significant areas of IT spend (the SCOTS agreement and the CMS hosting contract). However, as highlighted above, GiA funding does not cover depreciation or AME and so there will be a further impact upon reserves.

## Financial outlook – 2016/17 and beyond

SCRA's financial strategy 2015 to 2017 highlights various cost pressures and funding issues which could result in a significant budget gap over the forthcoming financial years. The strategy clearly sets out the financial risks and their potential financial impact. The key risk is the challenging budget pressures (a reduction in GiA and a continued need to deliver savings) placed on SCRA but also ensuring resources are focused on delivering core statutory roles;

In the baseline financial model, SCRA makes the following key assumptions;

- A decrease in GiA funding for 2016/17 of £0.520 million;
- The same level of other income;
- Annual progression and pay aware increases, as currently agreed by Unison;
- The ability to achieve 2% savings on salaries.

Notwithstanding these assumptions, the Plan, still shows a budget gap of £0.827 million for 2016/17, with a potential worst case scenario of £1.700 million budget gap for 2016/17 (based on no reduction in staff posts and a 2.5% reduction in GiA). Although SCRA has not yet developed detailed plans to achieve this level of savings it set out its funding requirements for 2016/17 and 2017/18 to the Sponsor Team in April 2015 and SCRA also communicated its concerns over the financial sustainability of the organisation's services in light of the future resource allocations currently being indicated by Scottish Government. We have identified a recommendation in relation to this matter – see Appendix 2 for further details.



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# *Section 4. Governance and internal control*

## **Governance structure**

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.

We have assessed SCRA's overall governance arrangements including a review of its structure, and supporting committees. The Board is supported by the Audit Committee, which has responsibility for monitoring risk and internal control, and the Remuneration Committee. In addition, there are a number of executive committees in place. Information governance and security is a key area of focus for SCRA, given the sensitivity of the information it holds. Breaches on non-disclosure agreements do occur; however, SCRA has controls in place to mitigate their volume and impact. An Information Governance action plan is in place and is designed to ensure any proposed actions for a tighter control process over information security are implemented effectively. The number of breaches is also monitored by SCRA as these are collated and reported to the Senior Management team as well as the Audit Committee.

We consider that the governance arrangements in place are appropriate.

## **System 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.

On the basis of the work we have undertaken for the purposes of our audit, we have no significant matters to bring to your attention in relation to the system of internal control and accordingly we consider the systems of internal control to be appropriate.

## **Risk management**

SCRA has a well-developed approach to risk management to ensure that organisational goals remain on track. The process continues to be refined on an ongoing basis and is considered regularly by the Board and the Audit Committee. A formal Risk Management Strategy is in place and is monitored by the Audit Committee in accordance with its remit. Strategic and operational risk registers are also maintained and reviewed as appropriate by the Audit Committee.

## **Internal Audit**

Internal audit services are provided to SCRA by Scott Moncrieff. We have assessed the internal audit reports issued during the year and considered any potential impact on our audit.

As detailed within the Scott Moncrieff Internal Audit Annual Report 2014/15, “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.”

Based on audit work performed we consider the Internal Audit function to be appropriate for the needs of SCRA.

## ***Section 5. Fraud***

International Standards on Auditing (UK&I) state that we, as auditors, are responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. The respective responsibilities of auditors and management are summarised below:

### **Auditors' responsibility**

Our objectives are:

- to identify and assess the risks of material misstatement of the financial statements due to fraud;
- to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and
- to respond appropriately to fraud or suspected fraud identified during the audit.

### **Management's responsibility**

Management's responsibilities in relation to fraud are:

- to design and implement programmes and controls to prevent, deter and detect fraud;
- to ensure that the entity's culture and environment promote ethical behaviour; and
- to perform a risk assessment that specifically includes the risk of fraud addressing incentives and pressures, opportunities, and attitudes and rationalisation.

### **National Fraud Initiative (NFI)**

SCRA participates in the National Fraud Initiative (NFI). 202 matches for the 2014/15 year have been identified and management has investigated and uploaded results on to the national NFI system. In accordance with our responsibilities as your appointed auditor, we have completed the NFI questionnaire and had the following observations:

- 201 matches, including the 30 recommended matches, had been processed, with commentary included on the NFI website;
- 1 item outstanding at the time of our review was for a match only released in May 2015 (with all others released January 2015); and
- no frauds or overpayments have been identified through investigations made.

### **Prevention and detection of fraud and corruption**

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 arrangements in this area.

SCRA has put in place a number of controls to manage the risk of fraud as follows: published anti-fraud policies and procedures; segregation of duties controls; and authorisation processes. Any frauds are investigated by the designated Fraud Liaison Office (Head of Finance & Resources) who manages individual cases and interacts with the Counter Fraud Services. The Board and Audit Committee are informed of any frauds reported. However, there have been no instances of fraud to report during the 2014/15 year. There is a whistleblowing policy in place, which was last reviewed in 2009 but is on the cycle of review for 2016. No instances of fraud/corruption were reported during the year through the whistleblowing policy.

Based on audit work performed we consider that the controls in place to prevent and detect fraud or corruption to be suitable for the operations of SCRA.

## ***Section 6. Independence***

### **Independence and objectivity**

We have made enquiries to determine if PwC is providing services to you in addition to our external audit. No such services have been identified. We have also considered the independence of the team delivering the audit.

There are no matters which we perceive may impact our independence or objectivity of the audit team.

### **Independence conclusion**

At the date of this report we confirm that in our professional judgement, we are independent accountants with respect to SCRA, within the meaning of UK regulatory and professional requirements and that the objectivity of the audit team is not impaired.

# Appendix 1: Action Plan

<i><b>Finding</b></i>	<i><b>Management response</b></i>
<p><b><i>Year end accruals cut off</i></b></p> <p><b>Finding</b></p> <p>During our testing of the year end accruals balance we identified an item accrued for in 2014/15 that related to 2015/16.</p> <p>As a result of this, Management performed an exercise to identify any further items of expenditure which had been recognised incorrectly. . This led to a number of errors being identified, with a total value of £49,000. (mainly relating to capital expenditure). The amount has been adjusted in the financial statements and we are now comfortable that accruals have not been materially misstated.</p> <p><b>Recommendation</b></p> <p>We recommend management reviews the year end accruals process, with a focus on capital expenditure accruals, to ensure items included in this balance are further reviewed prior to audit to limit the potential for incorrectly recorded items.</p>	<p>Finance feel that the accruals process as outlined in the year end instructions is sufficiently robust in that the instruction refer to “goods/services are <b>received</b> on or before 31st March”. However, management accept that there were a few instances in 2014/15 where the process was not followed. In order to reduce possibility that costs are accrued solely on the basis of a request to complete the works in the future, Finance will emphasise the instruction to all budget holders, to ensure that they are checking the date of works or receipt of goods before recognising the related accrual. In addition Finance will perform sample checks on accruals to ensure that the necessary documentation has been received confirming that the goods/services are received before 31<sup>st</sup> March.</p> <p><b>Timescales</b></p> <p>31 May 2016</p>

**Financial sustainability**

**Finding**

SCRA'S financial strategy plan for 2015 to 2017 indicate a budget gap of £0.827 million for 2016/17 and a potential worst case scenario for 2016/17 of £1.700 million if there are no reduction in staff posts in 2016/17 combined with a reduction in GiA of 2.5%. Although SCRA has not developed detailed plans to achieve this level of savings it set out its funding requirements for 2016/17 and 2017/18 to the Sponsor Team in April 2015 and SCRA also communicated its concerns over the financial sustainability of the organisation's services in light of the future resource allocations currently being indicated by Scottish Government.

**Recommendation**

Management should undertake an exercise to identify potential savings areas, and develop costed savings proposals to present to the SCRA Board for approval. Detailed plans should then be developed to set out how the changes will be implemented to realise these savings.

SCRA management is in the process of developing a range of funding scenarios and identifying the implications of these scenarios to inform the 2015 Spending Review. The draft Spending Review submission will be discussed with the SCRA Board in September 2015.

**Timescales**

30 September 2015

**General Fund**

**Finding**

The general fund balance as at 31 March 2015 is £6.435 million (2013/14: £11.177 million). Over the past two years £8.059 million of reserves have been utilised.

**Recommendation**

Management should consider SCRA's long term financial strategy.

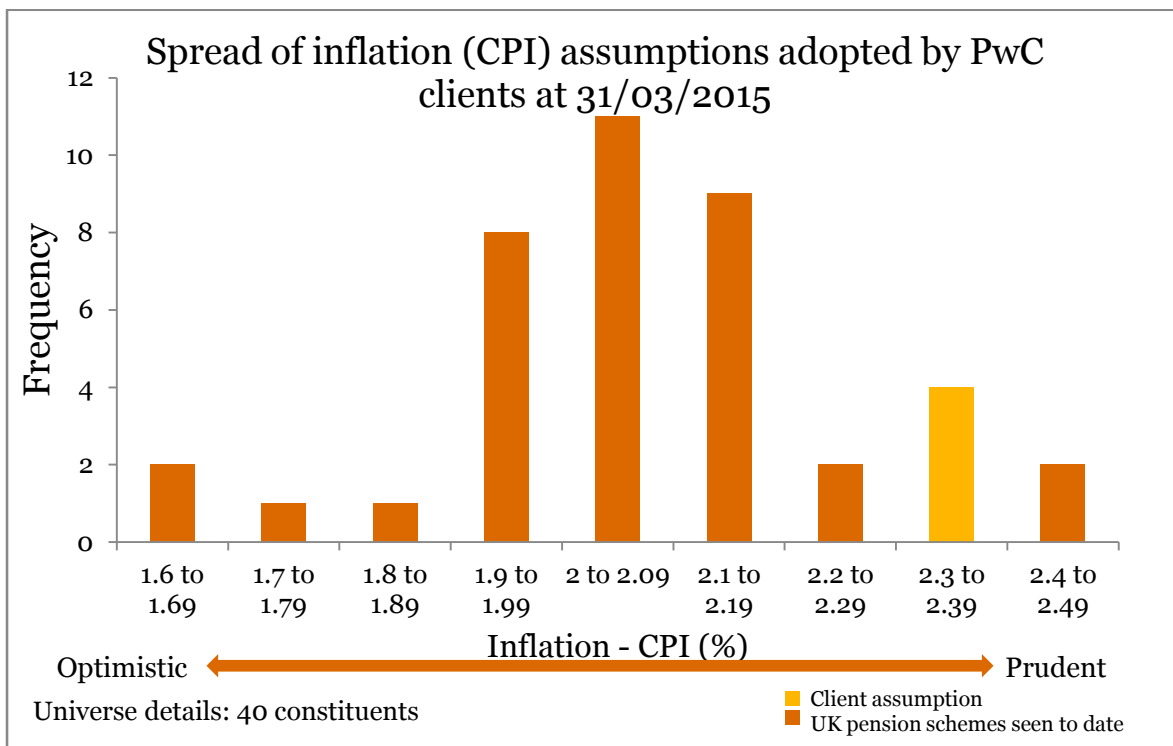
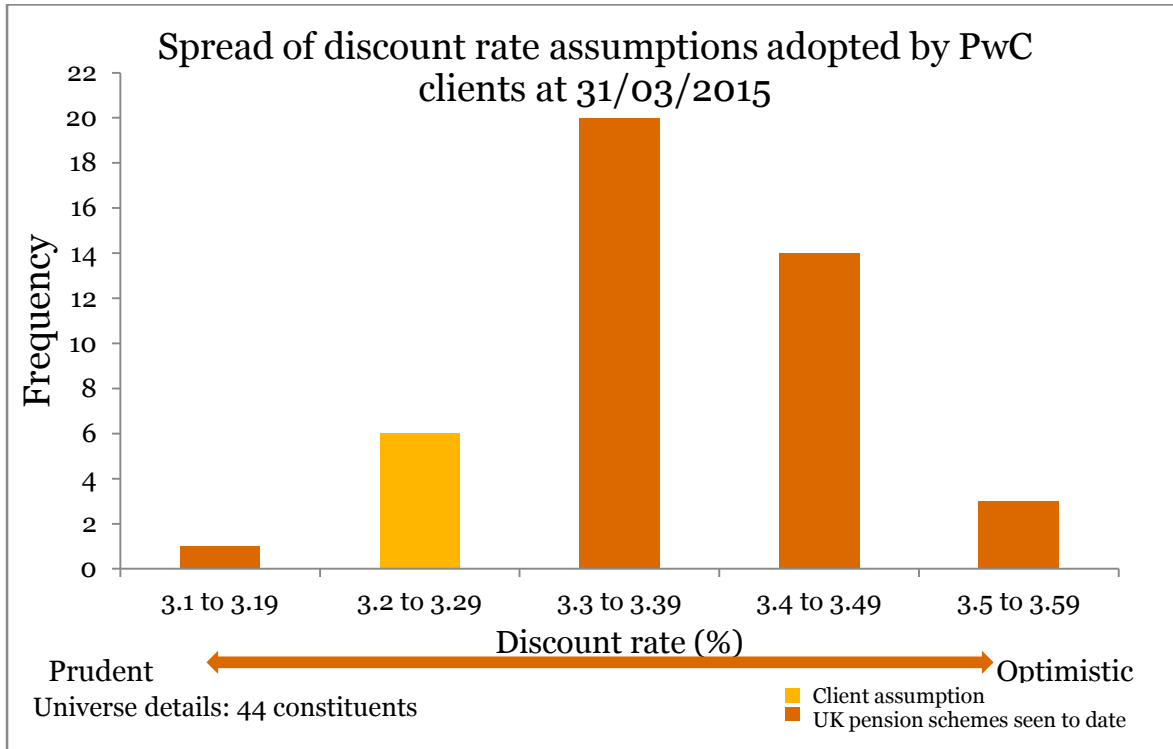
Management will continue to update the SCRA Financial Plan for discussion with SCRA's Sponsor Team within Scottish Government. In the meantime, work to review recent movements in the General Fund and to forecast likely movements in the General Fund over the medium term has started. Initial analysis suggests that the General Fund may stabilise at a value between £3m and £4m in the long term. This analysis will be developed further and discussed with the Audit Committee in November 2015 and then the Sponsor Team.

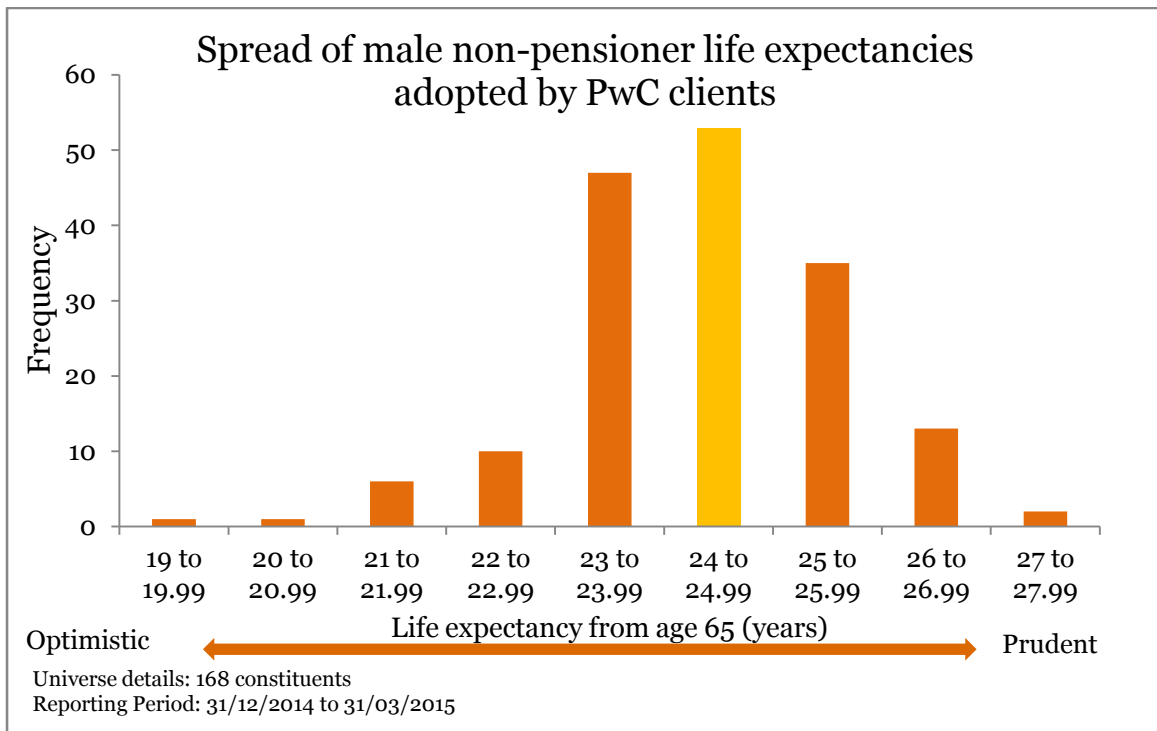
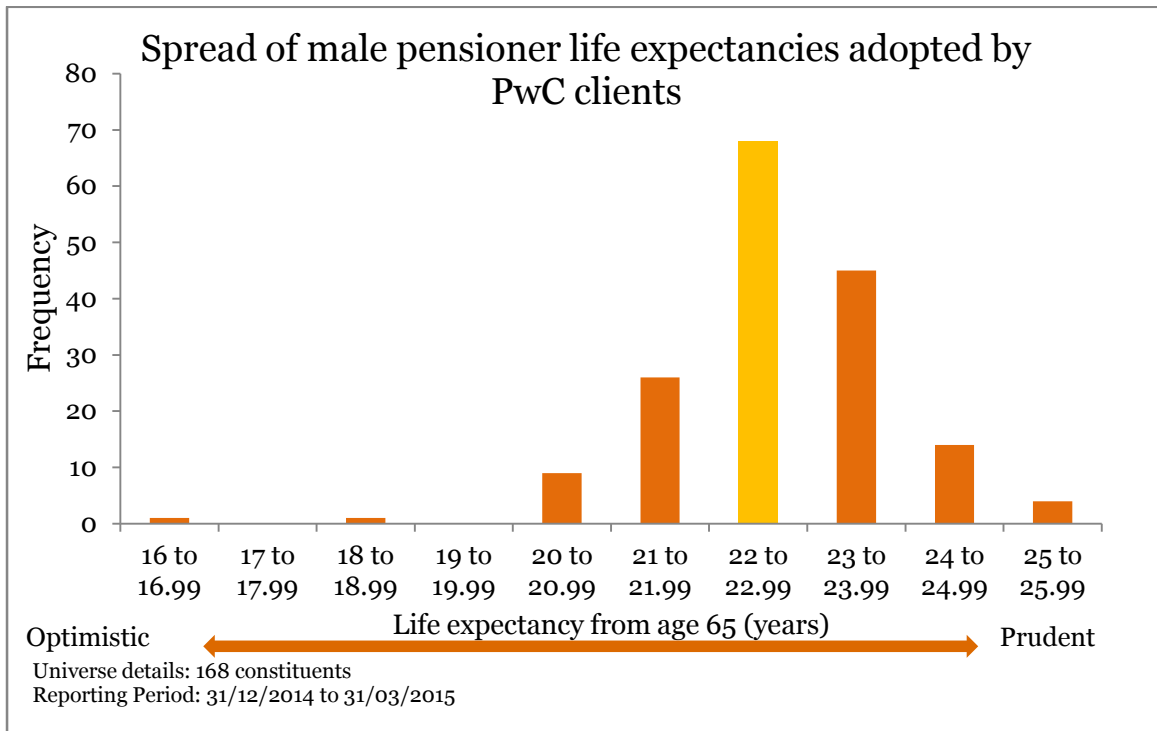
**Timescales**

31 December 2015

# Appendix 2: Pension assumptions benchmarking

Benchmarking of IAS 19 assumptions –Scottish Children’s Reporter Administration at 31 March 2015





Please note that benchmarking should not be relied on as a sole source of comfort. Some financial assumptions are narrowly prescribed by the standards and should therefore be within an acceptable range. Consideration of consistency in policy of assumption setting between years is also important. Benchmarking does not consider any Scheme specific issues that may exist.



# Appendix 3: Management Representation Letter

PricewaterhouseCoopers LLP  
141 Bothwell Street  
Glasgow  
G2 7EQ

Dear Sirs

This representation letter is provided in connection with your audit of the financial statements of Scottish Children's Reporter Administration (the "Body") for the year ended 31 March 2015 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view, have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and have been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000.

We confirm that the following representations are made on the basis of enquiries of management and staff of the Body with relevant knowledge and experience and, where appropriate, of inspection of supporting documentation sufficient to satisfy ourselves that we can properly make each of the following representations to you.

We confirm, for all directors at the time the directors' report is approved, to the best of our knowledge and belief, and having made the appropriate enquiries, the following representations:

## ***Financial Statements***

- We have fulfilled our responsibilities, for the preparation of the financial statements in accordance with the IFRSs as adopted by the European Union and the Public Finance and Accountability (Scotland) Act 2000; in particular the financial statements give a true and fair view in accordance therewith.
- All transactions have been recorded in the accounting records and are reflected in the financial statements.
- Significant assumptions used by us in making accounting estimates, including those surrounding measurement at fair value, are reasonable.
- All events subsequent to the date of the financial statements for which IFRSs as adopted by the European Union require adjustment or disclosure have been adjusted or disclosed.
- There are no uncorrected misstatements to report to you in this letter.
- The financial statements disclose all matters of which we are aware that are relevant to the Body's ability to continue as a going concern, including all significant conditions and events, mitigating factors and the Body's plans. The Body also has the intent and ability to take actions necessary to continue as a going concern.

## ***Information Provided***

- Each director has taken all the steps that he or she ought to have taken as a director in order to make himself or herself aware of any relevant audit information and to establish that you (the Body's auditors) are aware of that information.
- We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

- Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the Body from whom you determined it necessary to obtain audit evidence.
- So far as each director is aware, there is no relevant audit information of which you are unaware.

### ***Fraud and non-compliance with laws and regulations***

- We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
- We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the Body and involves:
  - Management;
  - Employees who have significant roles in internal control; or
  - Others where the fraud could have a material effect on the financial statements.
- We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the Body's financial statements communicated by employees, former employees, analysts, regulators or others.
- We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

### ***Related party transactions***

We confirm that the ultimate controlling party of the Body is the Scottish Government.

We confirm that the attached appendix to this letter is a complete list of the Body's related parties. All transfer of resources, services or obligations between the Body and these parties have been disclosed to you, regardless of whether a price is charged. We are unaware of any other related parties, or transactions between disclosed related parties.

Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of the FReM and the Public Finance and Accountability (Scotland) Act 2000.

We confirm that we have identified to you all members of key management, as defined by IAS 24, and included their remuneration in the disclosures of key management compensation.

### ***Employee Benefits***

We confirm that we have made you aware of all employee benefit schemes in which employees of the Body participate.

### ***Contractual arrangements/agreements***

All contractual arrangements (including side-letters to agreements) entered into by the Body have been properly reflected in the accounting records or, where material (or potentially material) to the financial statements, have been disclosed to you.

### ***Litigation and claims***

We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and such matters have been appropriately accounted for and disclosed in accordance with IFRSs as adopted by the European Union.

### ***Taxation***

We have complied with the taxation requirements of all countries within which we operate and have brought to account all liabilities for taxation due to the relevant tax authorities whether in respect of any corporation or other direct tax or any indirect taxes. We are not aware of any non-compliance that would give rise to additional liabilities by way of penalty or interest and we have made full disclosure regarding any Revenue Authority queries or investigations that we are aware of or that are ongoing.

In managing the tax affairs of the Body, we have taken into account any special provisions such as transfer pricing, debt cap, tax avoidance disclosure and controlled foreign companies legislation as applied in different tax jurisdictions.

### ***Using the work of experts***

We agree with the findings of Hymans Robertson, experts in evaluating the Falkirk Pension Fund as at 31 March 2015 and independent valuers Ryden, experts in valuing all of the Body’s land and buildings during 2014/15 and have adequately considered the competence and capabilities of the experts in determining the amounts and disclosures used in the preparation of the financial statements and underlying accounting records. We are not aware of any matters that have had an impact on the objectivity of the experts.

### ***Retirement benefits***

- All retirement benefits that the Body is committed to providing, including any arrangements that are statutory, contractual or implicit in the Body’s actions, wherever they arise, whether funded or unfunded, approved or unapproved, have been identified and properly accounted for and/or disclosed.
- All settlements and curtailments in respect of retirement benefit schemes have been identified and properly accounted for.
- The following actuarial assumptions underlying the valuation of retirement benefit scheme liabilities are the responsibility of SCRA senior management but are set upon advice given by the fund Actuary. SCRA is represented on the Falkirk Pension Fund Pension Panel and the Head of Finance and Resources provides advice on pension matters to senior management. The following assumptions are the assumptions recommended by the Actuary specifically for SCRA. The assumptions are consistent with our knowledge of the organisation and in our view, the combined effect of the assumptions is reasonable as a whole and leads to the best estimate of the future cash flows that will arise under the scheme liabilities:

<b>Pension assumptions</b>	
Pension increase rate	2.3%
Salary increase rate	3.0%
Discount rate	3.2%
<b>Net pension liability</b>	<b>£34.739 million</b>

### ***Asset held for sale***

In respect of the “Assets held for sale balance” of £480,000 as at 31 March 2015, we confirm that:

- A management decision has been made to dispose of the property;
- The property is being actively marketed for sale; and
- The sale is highly probable within 12 months of classification as held for sale.

As minuted by the Board at its meeting on September 2015

.....  
(Chief Executive)

.....  
(Chair)

For and on behalf of .....

.....

Date .....

**Related parties and related party transactions appendix**

Scottish Government (including Scottish Government Education Department)  
Falkirk Council Pension Fund



*In the event that, pursuant to a request which Scottish Children's Reporter Administration has received under the Freedom of Information Scotland Act 2002, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. Scottish Children's Reporter Administration agrees to pay due regard to any representations which PwC may make in connection with such disclosure and Scottish Children's Reporter Administration shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC, Scottish Children's Reporter Administration discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.*

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