Scotland's Commissioner for Children and Young People

Annual audit report 2014/15

Prepared for Scotland's Commissioner for Children and Young People and the Auditor General for Scotland

Contents

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This report will be published on our website after it has been considered by the Advisory Audit Board. The information in this report may be used by Audit Scotland in any reporting to the Scottish Parliament.

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Key Messages

Audit of financial statements	The independent auditor has issued an unqualified report on the 2014/15 financial statements.
Financial management and sustainability	The accounts are prepared on an accruals basis. However, management also closely monitor financial performance on a cash basis. The financial outturn for the year is within the resource budget allocated by Scottish Ministers: in 2014/15 Scotland's Commissioner for Children and Young People recorded cash expenditure of £1,204,000, the cash drawn down from the SPCB totalled £1,235,000, and this was within the allocated budget (£1,235,000). We confirm the financial sustainability of Scotland's Commissioner for Children and Young People on the basis of confirmation received from the Scottish Parliamentary Corporate Body (SPCB) that they will fund liabilities as they arise.
Governance and transparency	Overall we found that Scotland's Commissioner for Children and Young People had sound governance arrangements. Systems of internal control operated effectively during 2014/15.

Key Messages

Outlook	The cash budget for 2015/16 is £1,287,000, a 4.98% increase in the approved cash budget from 2014/15, which reflects additional responsibilities under the Children and Young People (Scotland) Act 2014. The basis of budget funding is determined by operational activities identified within the 2012-16 Strategic Plan (although was written before the 2014 Act) and the 2015/16 Operational Plan. Delivering Scotland's Commissioner for Children and Young People's business activity effectively is dependent on having sufficient staff.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of Scotland's Commissioner for Children and Young People (the Commissioner).

2. The Commissioner is responsible for:
   - preparing financial statements which give a true and fair view, in accordance with the relevant financial reporting framework
   - ensuring the regularity of transactions, by putting in place systems of internal control
   - maintaining proper accounting records
   - preparing and publishing with their financial statements an annual governance statement and a remuneration report.

3. Our responsibility, as the external auditor of the Commissioner, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.

4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. This does not relieve management of their responsibility for the preparation of financial statements.

5. A number of national and local reports have been issued by Audit Scotland during the course of the year. These reports are summarised at appendix II**.**

6. There are no high level risks, in our view, that require to be communicated from the audit in accordance with ISA 260.

7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Audit of the 2014/15 financial statements

Audit opinions

Financial Statements	• The financial statements of Scotland's Commissioner for Children and Young People 2014/15 give a true and fair view of the state of the body's affairs and of its expenditure for the year. • We confirm that the financial statements have been properly prepared in accordance with the 2014/15 FReM and the requirements of the Commissioner for Children and Young People Act (Scotland) Act 2003 and directions.
Regularity	• In all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.
Other prescribed matters	• The remuneration report to be audited has been properly prepared in accordance with the requirements of the 2014/15 FReM and the requirements of the Commissioner for Children and Young People Act (Scotland) Act 2003 and directions. • The information in the management commentary and strategic report is consistent with the financial statements.

Submission of financial statements for audit

9. We received the unaudited financial statements in accordance with the agreed timetable. The working papers were of a good standard and the staff provided good support to the audit team. We completed our on-site fieldwork on 11 September 2015.

Overview of the scope of the audit of the financial statements

10. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Commissioner in February 2015.

11. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

12. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified the key audit risks which had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance.

13. Appendix I sets out significant audit risks identified at the planning stage and how we addressed the risks in arriving at our opinion on the financial statements.

14. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

15. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other qualitative reasons (for example an item contrary to law).

16. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

17. We summarised our approach to materiality in our Annual Audit Plan. Based on the financial statements, we revised our planning materiality for 2014/15 to £13,000 (1% of gross expenditure). Performance materiality of £5,000 is determined

to ensure that uncorrected and undetected audit differences do not exceed our planning materiality level. We normally report all misstatements greater than £1,000.

Evaluation of misstatements

18. A number of minor typographical and transcription errors that were identified during the audit have been adjusted in the financial statements. These errors were well within our materiality tolerance for the financial statements to present a true and fair view.

19. We also recommended that a provision be created for dilapidations on the body's previous leased property as this is still the subject of a legal dispute. This change to the accounting treatment does not affect the general fund balance as the sum had previously been accrued in the draft accounts.

Significant findings from the audit

20. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit:
    - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and disclosures
    - Significant difficulties encountered during the audit
    - Significant matters arising from the audit that were discussed, or subject to correspondence with management
    - Written representations requested by the auditor
    - Other matters which, in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

21. A number of minor presentational errors were identified within the financial statements during the course of our audit. These were discussed with relevant officers and amended. There are no significant issues, in our view, that require to be communicated to you in accordance with ISA 260.

Future accounting and auditing developments

Revisions to the Financial Reporting Manual (FReM)

22. The financial statements are prepared in accordance with the Government financial reporting manual (FReM). Two significant revisions will apply from 2015/16:

- Adoption of IFRS13 Fair value measurement for the first time – this also includes IAS 16 and IAS 38 adaptations
- Simplification and Streamlining Project – changes to the form and content of the annual report and accounts.

23. **International Financial Reporting Standards (IFRS)13 Fair value measurement**: sets out the requirements for assets to be valued at fair value and is applied in full by the FReM only to assets that are not held for their service potential (i.e. investment properties and assets held for sale). It also applies to operational assets which are surplus to requirements where there are no restrictions on disposal which would prevent access to the market.

24. This change will have limited application to the Commissioner's financial statements.

25. **Restructuring of the annual report:** the 2015/16 FReM has been extensively re-written to require the annual report and accounts to include:

- a performance report which will give a fair, balanced and understandable analysis of performance and will include an overview section and a performance analysis section
- An accountability report incorporating the following three main sections:
  - corporate governance report consisting of a directors' report, a statement of the Accountable Officer's responsibilities and a governance statement
  - remuneration and staff report which will cover a number of prescribed disclosures including remuneration policy, payments to directors, staff numbers and sickness absence rates
  - parliamentary and accountability report which will include information on the regularity of expenditure and the independent auditor's report.
- A separate Statement of Accountable Officer responsibilities highlighting the Commissioner's role to fully comply with the FReM requirements.

26. The Commissioner will need to consider the implications for the Annual Report next year.

Financial management and sustainability

27. Scotland's Commissioner for Children and Young People (the Commissioner) was constituted under Section 1 of the Commissioner for Children and Young People (Scotland) Act 2003 which was passed by Parliament on 26 March 2003 and received Royal assent on 1 May 2003.

28. The current Commissioner, Tam Baillie, was appointed by Scottish Ministers on 18 May 2009 for a period of 8 years. The Commissioner is supported by a management team, other officers and is based in Edinburgh.

29. The Commissioner is a Scottish public authority, subject to the same requirements in relation to governance, efficiency and Freedom of Information as other authorities.

30. The Scottish Parliamentary Commission and Commissioners etc. Act 2010 from 1 April 2011 provided the SPCB with additional powers, including approving the Commissioner's budget.

31. The Commissioner's general function is to promote and safeguard the rights of children and young people in Scotland, up to age 18, or up to 21 if they have ever been in care or looked after by a local authority. In particular, the Commissioner is required to:

- promote awareness and understanding of the rights of children and young people;
- review law, policy and practice to assess their adequacy and effectiveness as regards those rights;
- promote best practice by service providers; and
- promote, commission, undertake and publish relevant research.

32. On 27 March 2014 the Children and Young People (Scotland) Act received Royal Assent. This legislation, which will significantly change the overall function of the office, has the following implications in terms of children's rights:

- duties relating to the United Nations Convention on the Rights of the Child (UNCRC)
- duties on public bodies in respect of reporting on the UNCRC
- extended powers of the Commissioner to include individual cases.

2014/15 financial position

33. The accounts are prepared on an accruals basis. However,

management also closely monitors financial performance on a cash basis.

34. At 31 March 2015 the Commissioner's statement of financial position shows a decrease in the general fund of £32,000.

35. The financial outturn for the year is within the resource budget allocated by SPCB. i.e. the cash drawn down for the year is within the allocated budget (£1,235,000). In 2014/15 the Commissioner recorded cash expenditure of £1,204,000. Cash drawn down from the SPCB totalled £1,235,000 which resulted in an increase in cash and cash equivalents of £31,000.

36. Net operating costs were £1,267,000, with £24,000 spent on non-cash items, and £42,000 of capital expenditure, giving a total net expenditure of £1,309,000 compared to £1,190,000 in 2013/14.

37. A net assets position of £5,000 was recorded in 2014/15 compared to £37,000 in 2013/14. The decrease has arisen as a result of an increase in trade payables and provisions, although non current assets and cash and cash equivalents have decreased.

Financial management

38. As auditors we need to consider whether bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:

- the Head of Corporate Services has sufficient status to be able to deliver good financial management;
- standing financial instructions and standing orders are comprehensive, current and promoted within the body;
- reports monitoring performance against budgets are accurate and provided regularly to the Management Team;
- members of the Advisory Audit Board provide a good level of challenge and question budget holders on significant variances.

39. Based on our accumulated knowledge and our review of relevant papers, we conclude that the Commissioner has appropriate financial management arrangements in place.

Budgetary Control

40. Overall, budgetary control is satisfactory; the Commissioner undertakes budget monitoring on a cash basis to monitor expenditure against the cash budget allocated by the SPCB. This takes into account that although goods and services may be consumed within one financial year, the costs will only be counted when the invoice is actually paid – which may be in the following financial year. At the financial year end the Commissioner prepares Financial Statements on an accruals basis. This is to meet the requirements stated in the Direction by Scottish Ministers that the statement of accounts is

prepared to comply with the accounting principles and disclosure requirements of the Government Financial Reporting Manual which is in force for the year for which the statement of accounts is prepared.

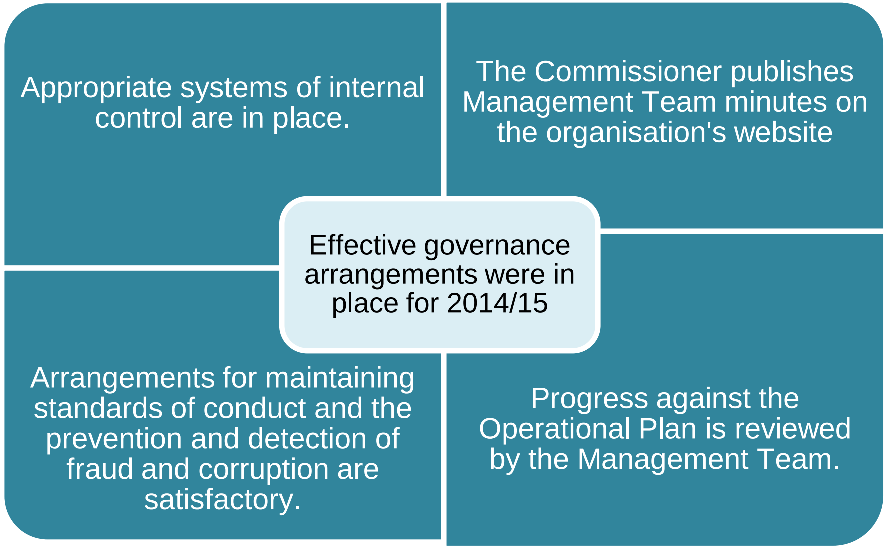
Quality of Information

41. Overall the information supporting the financial statements has been of a good quality and we appreciate the assistance provided by the Head of Corporate Services.

Outlook

42. The budget funding for 2015/16 is £1,287,000 which is a 4.98% increase in the approved cash budget from 2014/15, which reflects additional staffing resulting from new legal responsibilities. The basis of budget funding is determined by operational activities identified within the 2013-16 Strategic Plan and the 2015/16 Operational Plan. Delivering the Commissioner's business activity effectively is dependent on having sufficient staff.

Governance and transparency



Corporate governance

43. The Commissioner, as Accountable Officer, is responsible for establishing arrangements for ensuring the proper conduct of affairs and for monitoring the adequacy of these arrangements.

44. The Commissioner is accountable for the finances of the organisation to the Scottish Parliament and is the designated Accountable Officer.

45. The Commissioner is supported by a Management Team. They hold monthly meetings to which spend against budget is reported and the minutes are published on the Commissioner's website. Confidential matters are discussed in Executive Team meetings.

Transparency

46. The Scottish Government's On Board guidance (http://www.gov.scot/Publications/2015/04/9736/0), for board members of public bodies was updated and reissued in April 2015. This is an example of best practice although not directly applicable to the Commissioner's structure. On Board states that boards should demonstrate high standards of corporate governance at all times including openness and transparency in decision making. It recommends boards should consider:

- Holding an annual open meeting
- Holding board meetings in public unless there is a good reason not to
- Publishing summary reports and/or minutes of meetings
- Inviting evidence from members of the public in relation to matters of public concern
- Consulting stakeholders and users on a wide range of issues
- Making corporate plans and the annual report widely

available.

47. Overall we concluded that the organisation is open and transparent as far as confidential considerations allow. The Commissioner is a public official appointed by Her Majesty the Queen on the nomination of the Scottish Parliament. The Commissioner for Children and Young People Act (Scotland) Act 2003 does not provide for a Board, however the monthly Management Team minutes together with the annual report and a range of corporate plans and progress reports are published on the website. The Commissioner should keep openness and transparency in decision making under review.

Internal control

48. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole.

49. No material weaknesses in the accounting and internal control systems were identified during the 2014/15 audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Internal audit

50. Internal audit is not currently part of the Commissioner's governance structure.

Arrangements for the prevention and detection of fraud

51. 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.

52. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In our opinion the Commissioner's overall arrangements for the prevention of fraud, irregularity and corruption are satisfactory, although it should be noted that no system can eliminate the risk of fraud, irregularity or corruption entirely.

Best Value

53. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.

54. The Auditor General may require that we consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of best value. Where such requirements are not specified we may, in conjunction with the Commissioner, agree to undertake local work in this area.

55. We did not undertake any specific work in this area during 2014/15.

Performance

56. The Management Team receive monthly updates from managers on progress in the areas identified in the Strategic and Operational plans.

57. A final review of the 2014/15 Operational Plan in March 2015 found that most activities had been successfully concluded. Some activities were identified as ongoing and these were incorporated into the 2015/16 plan.

National performance audit reports

58. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, a number of reports were issued which are of direct interest. These are outlined in appendix II.

59. **Scotland's public finances - a follow-up audit: Progress in meeting the challenges.** This report was published in June 2014 and commented that, in setting budgets, public bodies need to focus more on their priorities, making clearer connections between planned spending and the delivery and measurement of outcomes.

60. **Update on developing financial reporting.** This update report published in March 2015 reviewed the principles of public financial management and provided an update on the actions the Scottish Government is taking to further develop financial reporting.

61. The report concludes that the Scottish Government and the public sector generally, have a good record of financial management and reporting. The Scottish Government has

continued to improve and develop its financial reporting framework since we last reported. The report highlights that consolidated accounts for the whole of the Scottish public sector would help provide an overall picture of its financial position to strengthen understanding and transparency.

Appendix I – Significant audit risks

The table below sets out the audit risk, how we addressed the risk and our judgement in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Financial audit issues		
Management override of controls: ISA 240 requires auditors to consider, on all audits, management's ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.	Detailed testing of journal entries and accounting estimates. Evaluation of any significant transactions that are outside the normal course of business.	No unusual or incorrect entries found from testing.
Financial Management: In a period of reducing resources across the public sector, it will be a challenge to balance expenditure and staffing levels against budget, especially when there is potential for increasing workload. There is a risk that the Commissioner cannot meet statutory obligations to acceptable timescales and standards within available funding.	Evaluation of financial performance against available funding and against statutory obligations.	No evidence that statutory obligations are not being met.

Appendix I – Significant audit risks

Audit Risk	Assurance procedure	Results and conclusions
Business Continuity: SCCYP has recently moved to new premises and a number of new business processes and policies have been implemented during 2014/15. We intend to review the arrangements in place for IT security and business continuity in 2014/15.	We monitored the move to new premises and implementation of a number of new business processes and policies during 2014/15.	We reviewed the move to new premises and implementation of a number of new business processes and policies for its impact on business continuity. It was noted that there was no evidence of business continuity being affected or that the processing of complaints was not being met in 2014/15.

Appendix II – Summary of local and national audit reports 2014/15