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Scottish Children's Reporter Administration

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

August 2016

Year ended 31 March 2016

PricewaterhouseCoopers
141 Bothwell Street
Glasgow
G2 7EQ

The Audit Committee
Scottish Children's Reporter Administration
Ochil House
Springkerse Business Park
Stirling
FK7 7XE

August 2016

Ladies and Gentleman,

We are pleased to enclose our report in respect of our audit for the year ended 31 March 2016. 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 2016. 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 22 September 2016 subject to our final completion procedures including subsequent events review and receipt of the signed letter of representation from management.

Yours faithfully

PricewaterhouseCoopers LLP

Contents

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 2015/16, 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 2015/16 audit plan that we presented to you in February 2016. 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 2016; and
- preparing a Performance Report and an Accountability Report, including a Statement of Governance and a Staff and 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 22 September 2016.

As a result of our work, we proposed a number of 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. No financial adjustments above the de minimus posting level were identified during our audit.

Financial performance

The aspects of SCRA's financial performance for the year that we would like to highlight are as follows:

- Net expenditure before Scottish Government funding was £25.480 million as at 31 March 2016, compared with net expenditure before Scottish Government funding of £26.400 million as at 31 March 2015. The decrease of £0.920 million in the year is the mainly due to the net impact of the following movements:
    - a decrease in staff costs of £0.516 million;
    - an increase in other expenditure of £0.311 million;
    - a decrease in depreciation and amortisation of £0.431 million; and
    - an increase in income of £0.168 million.
- Net liabilities of £22.835 million as at 31 March 2016, compared with net liabilities of £28.281 million as at 31 March 2015, with the decrease in liabilities of £5.446 million in the year being largely attributed to a decrease during the year in the pension liability.

Findings arising from the audit

We have responded to the matters identified as part of our audit plan, namely the significant and elevated risks identified in relation to the risk of management override of controls, property valuation and the risk of fraud in expenditure recognition. We also highlighted a wider scope audit risk in relation to financial sustainability. We have included within Section 2 of this report, the audit procedures performed in response to these identified risks.

In addition, we have discussed the following other areas of audit focus which arose during the course of the audit:

- ***Pensions -*** An actuarial valuation was performed by Hymans Robertson as at 31 March 2016 resulting in a year end net pension liability of £28.089 million (2015: £34.739 million);
- ***Exit packages -*** Nine exit packages totalling to £0.217 million were agreed during 2015/16 (2014/15: 4 exit packages, £0.247 million); and
- ***West Lothian Civic Centre Finance Lease –*** During our testing we identified that the finance lease for West Lothian Civic Centre, which has been occupied by SCRA for 8 years, has not been signed by both parties.

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 meaning we have no 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:

Financial Statement Risks

Matter arising	Audit response
Fraud and management override of controls ***Significant Risk*** ISA (UK&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.	In response to this risk; • We tested high risk journals by agreeing the journals to supporting documentation and verifying journals had been appropriately authorised. Factors considered in the identification of high risk journals included expenditure journals with an unusual account combination (e.g. where a journal was posted to expenditure which was not offset by a posting to cash, accounts payable or accruals), large journal entries, and journals posted by unusual users; • We examined management's accounting estimates for bias and performed detailed testing over accruals and pension assumptions; • We 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 • We performed unpredictability testing over staff expense claims to ensure claims were recorded correctly and appeared to be appropriate. **Our work did not identify any material errors that required adjustment to the financial statements.**

<table>
<tr><th>Matter arising</th><th>Audit response</th></tr>
<tr><td>Recognition of expenditure
Significant Risk
Under ISA (UK&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.

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.</td><td>In response to this risk;
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 2015/16 Government Financial Reporting Manual (FReM);
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;
We performed substantive cut-off testing on a sample of expenditure transactions posted in the month prior to the year-end and the month after the 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;
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
We reviewed estimates for expenditure such as accruals, to ensure that they had been accounted for on an accurate basis and in the proper period.
We did not identify any issues to report to you as a result of our work.</td></tr>
</table>

Matter arising	Audit response
Property valuation ***Elevated Risk*** SCRA has a significant property portfolio on its balance sheet which was valued at £7.8 million at 31 March 2016. Given the quantum of this figure and the number of assumptions used to determine the valuation, PwC's policy is to treat this as an elevated risk. However, we do not have any specific concerns over management's approach to property valuation.	During the year, SCRA changed its method for valuing its property portfolio. Previously, property was revalued by means of an annual desktop valuation, with a full valuation carried out every five years. In 2015/16 management decided to replace the annual desktop valuation with indexation for the intervening years between the quinquennial full valuation. This method is allowed in line with the 2015/16 FReM. Following a review of economic factors, management selected an indexation rate of 0% to apply to SCRA's property. As part of our audit, our valuation specialists reviewed this indexation rate and considered a nil movement in values over the year to be within a reasonable range of market benchmarks. Additionally, during 2015/16, a building in Tranent was damaged by fire to the extent that it could no longer be occupied or used by SCRA. The value of the building has been impaired in the 2015/16 accounts and written down so that only the land value remains. **We have no exceptions to report as a result of this work.**

Wider Scope Audit Risk

Matter arising	Audit response
Wider scope audit risk – financial sustainability ***Elevated Risk*** The Audit Scotland Code of Audit Practice states that public sector audits should be wider in scope than in the private sector to reflect the accountabilities attached to the use of public money. There is unprecedented financial pressure on the public sector as a result of ever increasing demand during a period of financial austerity in UK public services. This is leading to public sector bodies across the country finding it increasingly difficult to address budget shortfalls through the identification of efficiency savings. As a result there is an increasing risk to the financial sustainability of organisations in the long term. It is noted that this is not a financial statement risk in relation to going concern, but a wider scope audit risk in relation to the longer term financial sustainability of the organisation.	We have reviewed management's financial plans going forward to assess their robustness. We obtained an understanding of the 2015-16 financial performance and ensure that our substantive testing programme was delivered to reflect the areas of risk such as cut off, provisions and unrecorded liabilities. We have also considered management's arrangements to manage its future financial position. SCRA's funding is set on an annual basis. Given the challenges across the public sector there is no guarantee that the organisation will continue to receive current funding levels. This would result in challenges for the organisation as its seeks to identify areas where further savings can be made to achieve a balanced budget. **Further details on financial sustainability have been provided in section 3 of this report.**

Other areas of audit focus

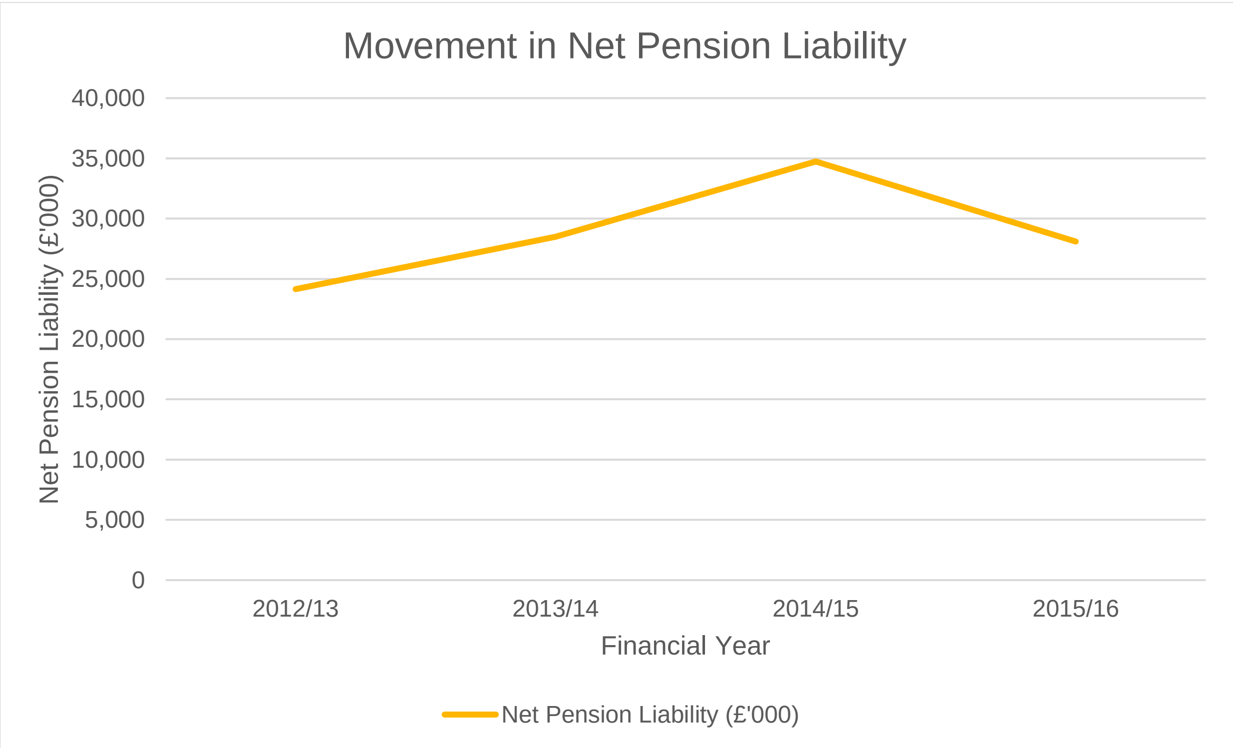
Pensions

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 2016 is a net pension liability of 28.089 million (2015: £34.739 million) having decreased by £6.650 million during 2015/16.

During the year to 31 March 2016, pension assets increased in value to £83,436 from £81.877 million from in 2014/15, an increase of £1.559 million (1.9%) and the value of the liabilities has decreased to £111.525 million from £116.616 in 2014/15, a decrease of £5.091 million (4.4%).

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 2016. The assumptions used by management are set out below:

	2015/16
Pension increase rate	2.2%
Salary increase rate	3.0%
Discount rate	3.5%
Net pension liability	**£28.089 million**

PwC have reviewed these assumptions against guidance published by our actuarial specialists and confirmed that these fell within the expected ranges.

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.

Exit packages

Nine exit packages totalling to £0.217 million were agreed during 2015/16 (2014/15: 4 exit packages, £0.247 million).

We have agreed a sample of exit package amounts recognised in the accounts to supporting documentation and ensured they were subject to appropriate approval. None of the items sampled received payments beyond the terms set out in the voluntary redundancy scheme. We have also reviewed the disclosures within the annual report and accounts.

As standard practice, the voluntary redundancy offer letter includes a paragraph stating that the offer is subject to a confidentiality clause whereby the employee will 'continue to abide by the duty not to use or disclose any confidential information regarding the business of SCRA'. Given the nature of the information that former employees would have access to, this is considered to be reasonable.

We are satisfied that the payments made by SCRA were appropriate and have been disclosed within SCRA's annual report and accounts for 2015/16 in accordance with the requirements of the FReM.

West Lothian Civic Centre Finance Lease

SCRA has occupied space within the West Lothian Civic Centre for the past 8 years and accounts for this arrangement as a finance lease. During our testing, we noted that the finance lease agreement has not yet been signed by both parties. This is due to ongoing negotiations around the ability of SCRA to make additional capital payments as part of the lease arrangement. Without a signed agreement, there is a risk that either party could terminate the agreement, leading to operational instability and potential service disruption.

We have included an action point in relation to this within Appendix 1. However we understand that management expects that the lease will be formally agreed shortly.

Misstatements and significant audit adjustments

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

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 £26,077. This is the level above which any uncorrected misstatements are reported to the Audit Committee.

We note that our final overall materiality calculated below at £521,540 has increased from the amount of £510,000 communicated in our Audit Plan presented to the Audit Committee in February 2016. The increase in the overall materiality is due to our final materiality being based on the actual year-end financial statements. The change has not impacted our planned audit approach in any way.

	£
Overall materiality – This is the amount we have applied in assessing the overall impact on the financial statements of potential adjustments	**£521,540**
Performance materiality - We have applied this to direct the amount of work performed over each financial statement line item – for example in calculating sample sizes	**£391,155**
De-minimus posting level - 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	**£26,077**

Section 3. Financial performance

Financial targets

SCRA's financial performance for the year to 31 March 2016 is summarised in the table below.

Table 1: Financial targets summary 2015/16

	Outturn £ 000	Budget Allocation £ 000	Underspend/ (Overspend) £ 000
Total Capital Resource	703	685	(18
Operating Expenditure (Cash)	20,825	21,370	545
Depreciation / Impairments (Non-cash)	2,098	2,800	702
Total Operating Resource	22,923	24,170	1,247
Annually Managed Expenditure Limit	2,558	2,500	(58)

SCRA's key areas of expenditure in 2015/16 included:

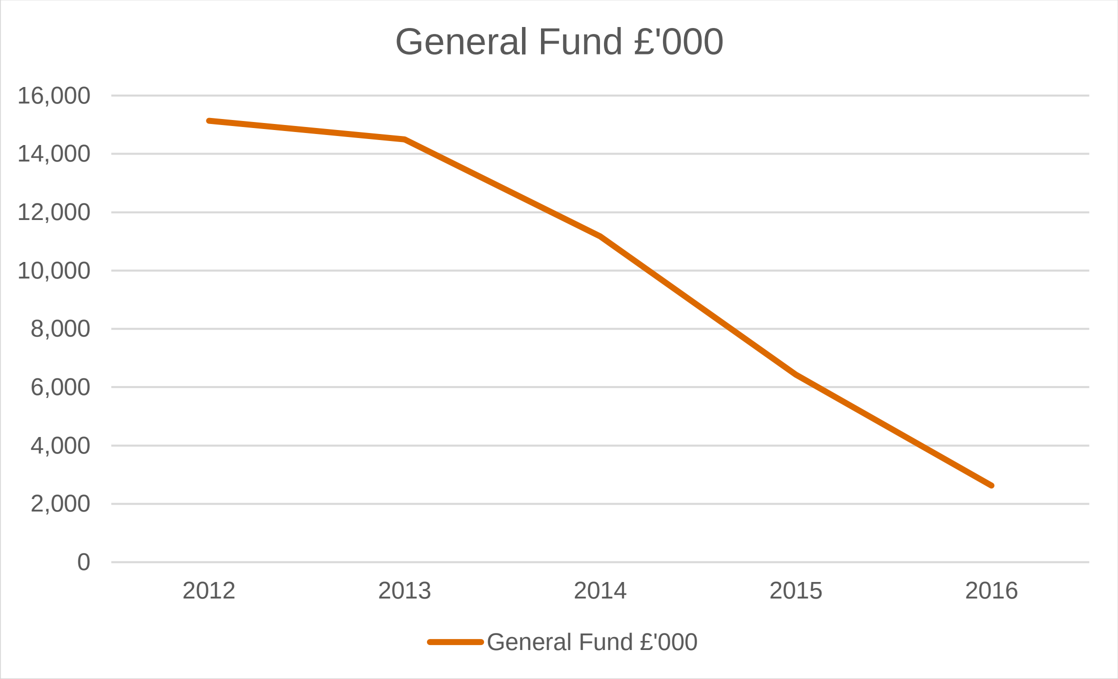
- Staff costs (£16.902million, 68% of total operating expenditure) — Staff costs have decreased by £516,000 from the prior year. This decrease was due to an overall decrease in staff numbers arising from a number of voluntary severance packages in the current and prior year.
- Other expenditure (£5.899million, 24% of total operating expenditure) — other operating expenses have increased by £311,000 from the prior year. The largest movement relates to the impairment for the damaged building in Tranent, with an impairment of £72,000.
- Annual Managed Expenditure (AME), (being IAS 19 costs) – These are determined each year by actuarial calculations. SCRA had an AME budget of £2.500million for 2015/16; however actual IAS 19 costs of £1.383million (adjustment to pension scheme contributions, included in staff costs above) and £1.175million (pension scheme finance cost) were incurred in the year.

Table 2: Movement in the general fund

	31 March 2016 *£ 000*	31 March 2015 £ 000	31 March 2014 £ 000	31 March 2013 £ 000	31 March 2012 £000
General Fund	2,627	6,435	11,177	14,494	15,136

As detailed in Table 2 above, the SCRA general fund balance decreased during 2015/16 to £2.627 million, a decrease of £3.808 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:



The decreasing general fund is largely due to two areas of expenditure: depreciation and amortisation and pension scheme costs. As with the prior year, 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 full year of amortisation anticipated in 2016/17. In addition IAS 19 adjustments to pension contributions in 2015/16 were £1.383 million (2014/15: £1.166 million) and pension scheme finance costs were £1.175 million (2014/15: £1.291 million). The above amounts are not funded through GiA, having a direct impact upon the general fund balance each year.

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 2015/16 year; however, management confirmed that it believes the target has been exceeded.

Financial sustainability

SCRA has been notified by the Scottish Government of plans to reduce funding over the three year period to 2018/19, with the published budget plan for 2016/17 being £20.28m. However, the indicative budget was in fact increased to £21.3m, supplemented by an in-year transfer. This short term increase has been provided against a backdrop of anticipated medium term reductions in funding which SCRA must plan to navigate, but are yet to be determined.

The vast majority of costs for SCRA are salary based and thus, the main budgetary pressure is increases in staff costs due to pay rises or increases in head count. Based on the current Scottish Government policy of increasing salaries by 1%, there will be additional budgetary pressures if funding levels do not increase, which creates a need to identify efficiencies in other areas. Salary costs are budgeted based on 'Approved Establishment Levels'; this means that staff numbers should not increase and any increases to the full time equivalent figures should be cost neutral. These levels are approved annually by the board as part of the budget setting process. Any change to staff terms in an effort to make additional savings could not be made without a period of consultation and negotiation with trade union representatives and as such further savings to be made from this area would be slow to realise.

Beyond staff costs, the remaining cost items are budgeted based on anticipated future demand driven by expected activity levels. Due to the fact that this is based on the number of reports and hearings, it is not easy to predict movements in this area and so the base assumption is that activity levels will remain consistent unless there is evidence to suggest that this will increase or reduce.

The organisation is in a net liability position of £22.8m, an improvement on 2014/15 where the net liability was £28.3m. This deficit is due to the pension liability of £28m in 2015/16 (£34.7m in 2014/15). Further information on the pension scheme liability is set out in section 2 of this report.

In order to address this funding uncertainty, SCRA has carried out an exercise to understand what actions it could take if funding was reduced by 2.5%, 5% and 10%. This included an analysis of staff cuts, reduced IT maintenance costs and other associated adjustments. It was noted that any reduction in funding was likely to have a negative impact on service provision, as whilst the number of referrals has been reduced, there has been an increase in hearings of a more complex nature and these require more input.

SCRA has set a break even budget for 2016/17 as follows:

Table 3: 2016/17 Financial Plan

SCRA	2016/17 Planned Budget £ 000
Grant in Aid (cash)	21,300
Other Income	382
Total income	**21,682**
Total operating costs	**21,682**
Surplus / (Deficit)	**0**

Total operating costs (excluding depreciation/impairments and IAS 19 charges) are budgeted to increase by £500,000. A large part of this (around £350,000) relates to an increase in staff costs compared to the prior year, primarily as a result of forecast saving in relation to employee costs and supplies. The draft income figure is £100k lower than the 2015/16 budget. This is due to shared services provided to CHS being subject to review following the introduction of joint posts in summer 2015. However, as highlighted above, GiA funding does not cover depreciation or AME and so there will be a further impact upon reserves.

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 reviewed 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 2015/16, and with the exception of the two issues highlighted below, "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, and proper arrangements are in place to promote value for money and deliver best value."

Internal audit undertook a case management system review in August 2015 and identified three high risk recommendations. These related to the super-user account password, encryption of personal storage devices, and the data warehouse. SCRA has addressed the risk relating to the data warehouse; however, as at the time of the Internal Audit Annual Report 2015/16, the other two issues remain outstanding. Plans are in place to address these recommendations, with target completion dates of October 2016.

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 remained outstanding due to the fact that SCRA is waiting for the other body connected to the match to respond to enable the match to be closed; and
- no frauds or overpayments have been identified through investigations made.

We are content that SCRA has put sufficient resource into the NFI process.

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 2015/16 year. 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

Finding	*Management response*
Lack of indexation guidance defined in the accounting policy **Finding** During our testing of valuations for land and buildings, it was noted that SCRA now applies annual indexation to its property base, supplemented by a full valuation performed once every five years. Whilst this is in line with the requirements of the FReM, management has not defined within its SCRA accounting policy what is consider to be a relevant index. This means that there is no guidance on an index to be consistently applied as part of this new policy. **Recommendation** We recommend that SCRA identifies and approves an appropriate basis upon which the index to be applied to property valuations is derived as a means to facilitate the effective, consistent application of their new policy.	Agreed. Management will be liaising with Audit Scotland very early in the 2016/17 Audit Process to identify a solution to this situation. If an appropriate free to user published index cannot be identified management will investigate the possibility of accessing an index via a subscription service or possible a return to the desktop valuations of the past. Whatever solution is agreed upon it is expected that this will remain in place until the next full valuation in 2020. **Timescales** 31 December 2016
West Lothian Civic Centre Finance Lease **Finding** During our testing, PwC noted that the finance lease agreement for West Lothian Civic Centre has not yet been signed by both parties. SCRA have occupied the building for 8 years, and account for this as a finance lease. The provisional agreement with West Lothian Council sets out a lease term of 30 years. Without a signed agreement, there is a risk that either party could terminate the agreement leading to operational instability and potential service disruption. This is a result of negotiations around the ability to make additional capital payments, which has resulted in the document remaining incomplete. **Recommendation** We recommend that SCRA works with the lessor to agree the terms of the lease agreement such that it can be formally put in place.	Agreed. Management is in discussion with West Lothian Council and can see no issues with both parties signing of the lease in the near future, and certainly by 31 March 2017. **Timescales** 31 March 2017

Appendix 2: 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 2016 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 members at the time the Performance and Accountability reports are 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 member has taken all the steps that he or she ought to have taken as a member 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 member 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 2016 and independent valuers Ryden, experts in valuing all of the Body's land and buildings during 2015/16 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:

	Pension assumptions
Pension increase rate	2.2%
Salary increase rate	3.0%
Discount rate	3.5%
Net pension liability	**£28.089 million**

As minuted by the Board at its meeting on 22 September 2016

....
(Chief Executive) (Chair)

For and on behalf of ....

Date ....