Scottish Criminal Cases Review Commission

2017/18 Annual Audit Report

AUDIT SCOTLAND

Prepared for the Scottish Criminal Cases Review Commission and the Auditor General for Scotland

18 June 2018

Who we are

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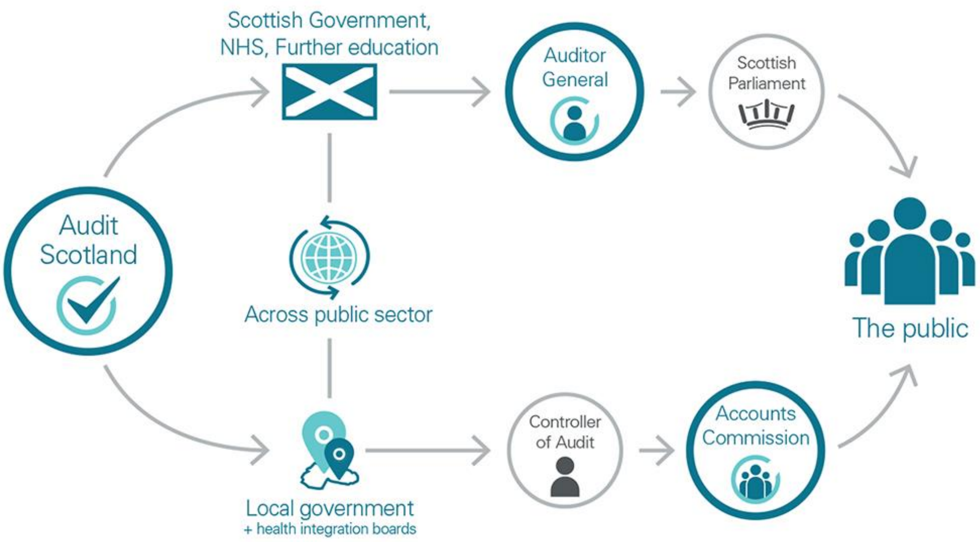
- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.

- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.

- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money

- reporting our findings and conclusions in public

- identifying risks, making clear and relevant recommendations.

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Key messages

2017/18 annual report and accounts

1 **In our opinion the Scottish Criminal Cases Review Commission's financial statements give a true and fair view and were properly prepared and, expenditure and income was in accordance with applicable enactments and guidance.**

2 **The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements.**

Financial sustainability and governance statement

3 **We concluded that the Scottish Criminal Cases Review Commission overspent against their annual budget from the Scottish Government by utilising cash reserves. This is not a sustainable way to fund operating costs in the medium to long term should funding remain at current levels.**

4 **We concluded that the information in the governance statement is consistent with the financial statements and complies with the guidance issued by the Scottish Ministers.**

Introduction

1. This report summarises the findings from our 2017/18 audit of the Scottish Criminal Cases Review Commission (the 'Commission').

2. The scope of our audit was set out in our Annual Audit Plan presented to the 22 February 2018 meeting of the Audit Committee. This report comprises the findings from:

- an audit of the Scottish Criminal Cases Review Commission's annual report and accounts and
- consideration of the financial sustainability and appropriateness of governance statement.

3. Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are:

- financial sustainability,
- financial management,
- governance and transparency, and
- value for money.

4. The *Code of Audit Practice 2016* (the Code) includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services.

5. As highlighted in our 2017/18 Annual Audit Plan, due to the low volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2017/18 audit of the Commission.

6. The Commission has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual report and accounts that are in accordance with the accounts direction from Scottish Ministers. The Commission is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

7. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the *Code of Audit Practice 2016)*, and guided by the auditing profession's ethical guidance.

8. As public sector auditors we give independent opinions on the annual report and accounts and conclusions on securing financial sustainability and appropriateness of the governance statement disclosures. In doing this, we aim to support improvement and accountability.

9. The weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

10. Our annual audit report contains an agreed action plan at Appendix 1 setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.

11. We confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2017/18 audit fee of £7,610 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

12. Our aim is to add value to the Commission by providing insight and foresight on financial sustainability and by identifying areas of improvement and recommending / encouraging good practice. In so doing, we aim to help the Commission promote improved standards of financial planning, better management and decision making.

13. This report is addressed to the board and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

14. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2017/18 annual report and accounts

Main judgements

In our opinion the Scottish Criminal Cases Review Commission's financial statements give a true and fair view and were properly prepared; expenditure and income was in accordance with applicable enactments and guidance.

The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements.

Audit opinions on the annual report and accounts

15. The annual report and accounts for the year ended 31 March 2018 were approved by the audit committee on 4 June 2018. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction
- we have nothing to report in respect of those matters which we are required by the Auditor General to report by exception.

The annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

Submission of annual report and accounts for audit

16. We received the unaudited annual report and accounts on 8 May 2018 in line with our agreed audit timetable.

17. The unaudited annual report and accounts provided for audit were complete and of a good standard and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

Risks of material misstatement

18. Appendix 2 provides a description of areas we assessed as being at risk of material misstatement at the planning stage, how we addressed them and our conclusions thereon. These risks influenced our overall audit strategy, the allocation of staff resources to the audit and how the efforts of the audit team were directed.

Materiality

19. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. When deciding on what is material we consider both the amount and nature of the misstatement.

20. We carried out our initial assessment of materiality for the annual report and accounts during the planning phase of the audit. On receipt of the annual report and accounts we reviewed our planning materiality calculations and concluded that they remained appropriate and these are summarised in Exhibit 1.

Exhibit 1
Materiality values

Materiality level	Amount
Overall materiality	£10,800
Performance materiality	£8,100
Reporting threshold	£1,000

Source: Annual Audit Plan 2017/18

How we evaluate misstatements

21. There were no material adjustments to the unaudited financial statements arising from our audit. However, from our testing of expenditure transactions, we identified 5 invoices where an element related to 2018/19. These amounted to £10,655 and officers made the necessary amendments to the financial statements to correct these errors. We also identified one instance where expenditure was understated by £7,375 resulting in a change to the unaudited accounts of £3,280. In addition to these we identified instances where the amounts related to 2016/17. These misstatements amounted to £6,812 and have not been amended in the financial statements.   We undertook further work and established that the 2016/17 financial statements were overstated by a similar amount thus the net result was an overstatement of £1,806. As this exceeds our reporting threshold we are required to provide detail on their impact on the accounts as detailed in Appendix 3.

22. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected. The final decision on this lies with those charged with governance considering advice from senior officers and materiality. Management do not propose to adjust for the 2 invoices as these amounts relate to the prior year and are not considered material in the context of the financial statements.

Significant findings from the audit (ISA 260)

23. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance. These are summarised in Exhibit 2. Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in Appendix 1 has been included.

24. The findings include our views about significant qualitative aspects of the board’s accounting practices including: significant financial statements disclosures, the impact of any uncertainties, misstatements in the annual report and accounts, accounting estimates and judgements and the effect of any unusual transactions on the financial statements.

Exhibit 2

Significant findings from the audit of the financial statements

Finding	Resolution
1. Incorrectly recorded transactions From our sample of 22 expenditure transactions, we identified 5 which included elements relating to 2018/19 and which should have been recorded as prepayments and not as expenditure in 2017/18. These errors amounted to £10,655. We also found one error where the lease incentive had not been correctly recorded resulting in an understatement of £7,375.	As noted at paragraph 21 officers corrected the errors. Recommendation 1 (refer appendix 1, action plan)
2. Amounts incurred in 2016/17 not accrued in prior year From our sample of 22 expenditure transactions, we identified 2 invoices relating to 2016/17. Both invoices were received after the year end (May and September) and had not been recorded as accruals in the 2016/17 financial statements. These errors amounted to £6,812. Further work identified that the 2016/17 financial statements included elements which should have been shown as a prepayment (£8,024) resulting in a net error of £1,806. This error is not material.	As noted at paragraph 21, officers made the decision not to correct these errors as they relate to the prior year. Recommendation 1 (refer appendix 1, action plan)
3. Capital contribution from landlord The Commission entered a new lease on the Portland House premises in March 2017. As part of the lease renewal, the landlord provided a capital incentive of £50,000 to be used for refurbishment works. The expenditure has not yet been incurred therefore this amount has correctly been recorded as deferred income and will be released to expenditure once refurbishment costs are incurred.	Additional narrative has been added to the accounts to explain the reason for this deferred income. As expenditure is due to be incurred during 2018/19 we will confirm the correct treatment has been applied in next year's financial statements. Recommendation 2 (refer appendix 1, action plan)
4. Year-end overspend The Commission's budget for 2017/18 was £1,018,995. As with previous years, a high level of legal costs were incurred during the year resulting in the Scottish Government providing additional funding of £40,000. This resulted in an overspend position of approximately £23,000 at the year end.	The Commission's budget has been frozen since 2014/15 and it has been increasingly difficult for them to meet their objective of operating within this budget. The utilisation of cash balances has enabled the Commission to fund its expenditure. However, the utilisation of cash is a short-term measure and not sustainable in the longer term. Recommendation 3 (refer appendix 1, action plan)

Source: Audit Scotland

Follow up of prior year recommendations

25. We have followed up actions previously reported and assessed progress with implementation, these are reported in Appendix 1 and identified by the prefix b/f (brought forward).

26. In total, 3 agreed actions were raised in 2016/17. Of these:

- 1 has been fully implemented
- 2 have been actioned but are continuing actions for 2017/18 given the nature of the organisation and its funding.

27. Overall the Commission has made good progress in implementing these actions. For those actions not yet implemented, revised responses and timescales have been agreed with management in Appendix 1

Part 2

Financial sustainability and governance statement

Main judgements

We concluded that the Scottish Criminal Cases Review Commission overspent its budget of £1,018,995 in 2017/18.

We concluded that the information in the governance statement is consistent with the financial statements and complies with the guidance issued by the Scottish Ministers.

Financial performance in 2017/18

28. The main financial objective for the Commission is to ensure that the financial outturn for the year is within the budget allocated by the Scottish Government. The Commission had an initial budget allocation of £1,019k for 2017/18. Due to high legal costs incurred because of ongoing court actions, additional funding of £40k was provided by the Scottish Government, as in previous years.

29. The Statement of Comprehensive Net Expenditure shows expenditure for the year of £1,082k, an overspend of approximately £23k against the revised budget of £1,059k.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Short term financial planning

30. Funding from the Scottish Government is the Commission's sole source of income and there is a greater degree of certainty over future funding streams than for some other public sector organisations who are involved in income generating activities. Therefore, the main focus for the Commission is achieving a balanced financial plan to remain within their annual allocation.

31. Funding has been frozen since 2014/15 and is expected to remain at this level for the short term. The Commission has held relatively large cash balances for the past few years which have been utilised to help fund its operating expenditure, however this is a short-term measure.

Medium to long term financial planning

32. The Commission has a Corporate Plan covering the period 2016-2019 which includes a high level financial plan based on an assumed level of funding and estimated costs. The forecast is based on Scottish Government remaining at its current level.

33. While efforts have been made in the past to achieve savings to operate within budget, future efficiencies are now limited as staff costs account for around 72% of spend. The next 3 year Corporate Plan covering 2020-2023 will need to address the challenge of meeting future operating costs with funding at its current level.

Governance statement

34. Our review of the governance statement assessed the assurances which are provided to the Chief Executive as Accountable Officer regarding the adequacy and effectiveness of the board’s system of internal control which operated in the financial year.

35. We concluded that the information in the governance statement is consistent with the financial statements and complies with the guidance issued by the Scottish Ministers.

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement

No.	Issue/risk	Recommendation	Agreed management action/timing
1	**Errors in recording expenditure** From our sample of 22 expenditure transactions for 2017/18, we identified 7 invoices which included elements which did not relate to 2017/18 and which should not have been recorded as expenditure in the financial statements for this year. **Risk** There is a risk that the expenditure recorded for the year is materially incorrect.	Internal closedown procedures should be reviewed to ensure that they are adequate. The accounts preparation process should have sufficient time built in for review. Paragraph 24	Agreed – closedown procedures for 2017-18 will be reviewed as part of the lessons learned exercise and a more robust procedure put in place for 2018-19. Director of Corporate Services 30 September 2018
2	**New Lease on Portland House** As part of the lease renewal, the landlord provided a capital incentive of £50,000 to be used for refurbishment works. Once this expenditure has been incurred it should be released from deferred income and appropriately recognised in the 2018/19 financial statements. **Risk** Only expenditure that has been properly incurred for the purposes intended can be offset against the deferred income balance.	All expenditure that relates to the refurbishment should be separately identified to ensure that the utilisation of deferred income is for the intended purpose. The existing provision will also require to be reviewed during 2018/19. Paragraph 24	Agreed – all refurbishment expenditure will be noted separately on the Commission's expenditure records to enable accurate utilisation of deferred income. Director of Corporate Services From immediate effect
3	**Overspend Position** The Commission's budget for 2017/18 was £1,019k. The Statement of Comprehensive Net Expenditure shows expenditure for the year of	The preparation of the Corporate Plan for 2019-22 will provide the Commission with the opportunity to consider its ability to continue to fund its operations at the current level of funding and whether the	Agreed – this will be considered in more detail as part of the development of the 2019-22 Corporate Plan. Director of Corporate Services

No.	Issue/risk	Recommendation	Agreed management action/timing
	£1,082k. After including additional Scottish Government funding of £40k there was an overspend of approximately £23k against the revised budget of £1,059k. **Risk** With Scottish Government funding frozen and limited scope for the Commission to make future efficiencies there is a risk that the Commission is unable to continue to fund its operating costs. The utilisation of cash balances is not a long-term solution.	assumptions used remain adequate. Any plans to achieve efficiency savings need to be built into the medium term financial plans included in the Corporate Plan. Paragraph 24	December 2018
Follow up of prior year recommendations			
b/f	**1. Finalisation of Portland House lease arrangements** At the date of signing the accounts, 13 June 2017, the lease for Portland House has not been finalised**.** The previous lease expired on 28 February 2017. **Risk** While the landlord has given a commitment to extend the lease at favourable terms, until the lease is signed there remains a risk that the terms of the lease can be changed.	The board should ensure that the lease is signed as a matter of urgency.	As at 6 June 2017 the Commission had received confirmation that the Scottish Ministers had approved their recommendation to extend the existing lease for a further period of 5 years. Solicitors for both parties are now working on the extension. Director of Corporate Services By 1 July 2017 A new 5-year lease was entered into from March 2017 and the lease documentation has been provided to audit for review.
b/f	**2. Financial Planning** The budget for 2016/17 included an estimate of £10k for legal costs. Due to costs incurred relating to a number of court cases actual expenditure was higher than budgeted for in 2016/17. We note that the Commission has had its funding from the Scottish Government frozen at £1.019 million since 2014/15. Since the majority of operating expenditure is staff costs there	The board should continue to consider ways to reduce day to day running costs and seek opportunities to make efficiencies where possible.	As part of the Commission's 2017-18 Business Plan Objectives a full review of the Commission's contracts register has been agreed in order to identify possible efficiencies and cost reductions. Director of Corporate Services By 31 March 2018 This action is ongoing – see point 3 above.

No.	Issue/risk	Recommendation	Agreed management action/timing
	are, therefore, restricted opportunities to make savings. **Risk** The board may not be able to operate within its budget for 2017/18.		
b/f	**3. Long term financial sustainability** The Commission is fully funded from its Grant-in-aid allocation from the Scottish Government and this is set on a year-on-year basis. However, this should not preclude the Commission from preparing medium to long term financial plans to ensure long term financial sustainability. **Risk** There is a risk that the Commission is not in a position to adapt to future changes to its budget.	The Commission should consider the development of longer term financial plans through discussion with its sponsor team to help make it more capable of dealing with changes in future funding.	The Commission will include this on the agenda of the next quarterly sponsorship meeting and discuss/agree an appropriate way of setting out longer term financial forecasts along with the types of assumption that would need to be taken into account. Thereafter the Commission will include this in quarterly sponsorship meetings along with normal quarterly financial reporting. Director of Corporate Services. By 30 September 2017 This action is ongoing.

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the *Code of Audit Practice 2016*.

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
1 Risk of management override of controls ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.	Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business.	No issues identified.
2 Risk of fraud over income and expenditure ISA 240 and the Code of Audit Practice require auditors to consider the risk of fraud over recognition of revenue which is considered to be an inherent risk in any audit. As SCCRC receives all of its income from Scottish Government funding the risk of fraud over income can be rebutted and no additional audit work is required. ISA 240 and the Code of Audit Practice also require auditors to consider the risk of fraud over certain types of public sector expenditure. As around 68% of SCCRC's expenditure relates to staff costs the risk of fraud over expenditure is very low and will not impact on our planned audit work.	Analytical procedures on expenditure streams. Detailed testing of expenditure transactions.	A number of issues were identified with a sample of payments not being recorded in the correct accounting period. These misstatements were due to human error and do not indicate any fraudulent behaviour.

Audit risk	Assurance procedure	Results and conclusions
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
3 Financial sustainability High level financial forecasts have been included in the 2016-19 Corporate Plan which detail the estimated expenditure over the period of the plan based on a frozen budget of £1.019m per annum. To help reduce overall running costs, SCCRC say they will continue to work collaboratively and through shared service arrangements; however, a lot of efficiency savings have already been achieved and it will be a challenge to realise further savings without impacting on core services.	We will consider the year end position and the medium to long term financial plans in place for 2018/19 onwards. We will comment where appropriate in our Annual Audit Report.	The position for 2017/18 remains the same. While efforts have been made in the past of achieve savings, future efficiencies are limited as staff costs account for around 72% of spend.

Appendix 3

Summary of uncorrected misstatements

We report all uncorrected misstatements that are individually greater than our reporting threshold of £1,000.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in Exhibit 2. We are satisfied that these errors do not have a material impact on the financial statements.

No.	Account areas	Comprehensive income and expenditure statement		Balance sheet	
		Dr £000	Cr £000	Dr £000	Cr £000
1	Other Admin Expenditure		6,218		
	Accruals			6,218	
2	Other Admin Expenditure (prior year)	8024			
	Prepayments				8,024
Net impact		**1,806**			**(1,806)**

Notes:
1. Entry 1 relates to expenditure paid in 2017/18 but which relates to services provided in 2016/17.
2. Entry 2 relates to expenditure paid in 2016/17 but which relates to services due in 2017/18.

Appendix 4

Summary of national performance reports 2017/18

2017/18 Reports

	Apr	
	May	
Common Agricultural Policy Futures programme: further update	**Jun**	Scotland's colleges 2017
	Jul	NHS workforce planning
Self-directed support: 2017 progress report	**Aug**	
Equal pay in Scottish councils	**Sept**	
Transport Scotland's ferry services	**Oct**	NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17	**Nov**	
	Dec	
	Jan	
Early learning and childcare	**Feb**	
Managing the implementation of the Scotland Acts	**Mar**	

Scottish Criminal Cases Review Commission

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: **info@audit-scotland.gov.uk**
www.audit-scotland.gov.uk