Scottish Children's Reporter Administration

2017/18 Annual Audit Report

AUDIT SCOTLAND

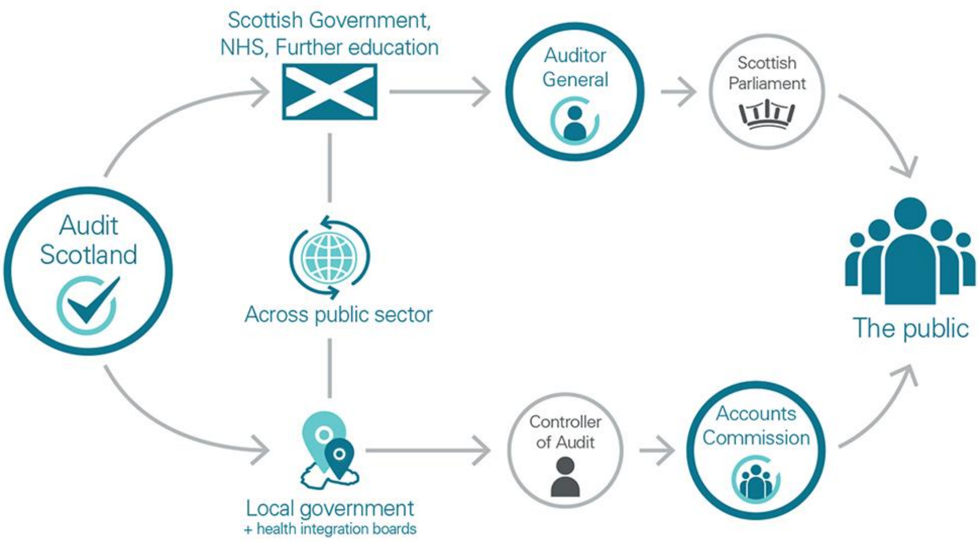
Prepared for the Scottish Children's Reporter Administration and the Auditor General for Scotland

27 September 2018

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- 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.

Contents

Key messages

2017/18 annual report and accounts

1 **In our opinion the Scottish Children's Reporter Administration's (SCRA) 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 **The balance on SCRA's general fund has reduced significantly in recent years and now stands at a negative position of £2.8 million in 2017/18.**

4 **Continued savings targets required for 2018/19 may be difficult to achieve.**

5 **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 SCRA.

2. The scope of our audit was set out in our Annual Audit Plan presented to the 16/03/18 meeting of the Audit Committee. This report comprises the findings from:

- an audit of the SCRA annual report and accounts
- 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 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 SCRA.

6. The SCRA 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 SCRA 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 £31,790 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 SCRA 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 SCRA 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 SCRA'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 board on 27/09/2018. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- an unqualified opinion on regularity of expenditure and income
- 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 01/06/2018 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 these are summarised in Exhibit 1. These levels are broadly consistent with those calculated at the planning stage.

Exhibit 1
Materiality values

Materiality level	Amount
Overall materiality - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1.5% of gross expenditure for the year ended 31 March 18.	£381,000
Performance materiality - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 75% of overall materiality.	£286,000
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 5% of overall materiality.	£19,000

Source: Audit Scotland

How we evaluate misstatements

21. We brought to the attention of management some minor discrepancies between opening balances under cost and accumulated depreciation, 'indexation/revaluation' and 'withdrawn on revaluation' lines for buildings and the Fixed Asset Register (FAR). In the case of the opening balances for cost and accumulated depreciation, the discrepancies identified were not material. Following discussion, management agreed to amend all identified discrepancies (both material and non-material), resulting in zero indexation/valuation in year and a re-statement of opening balance figures for both cost and accumulated depreciation, with relevant disclosure in the accounts. These amendments resulted in increases in the cost and accumulated depreciation at 1 April 2017 of £481,000 and £507,000 respectively.

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 adjusted for all immaterial errors identified during the audit.

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. Property, plant and Equipment disclosures There were various discrepancies between the Fixed Asset Register (FAR) and Accounts for the opening cost/valuation balances in the Property, plant and equipment (PPE) note. These related to several prior period errors and resulted in incorrect closing balances from 16/17 being brought forward to opening balances in 17/18. There were also various discrepancies between the FAR and the PPE note for the opening balances on accumulated depreciation. The discrepancies were not material. Figures were disclosed in the PPE note to reflect removal of accumulated depreciation on buildings, despite a zero revaluation on buildings in year.	Officers have now revised the accounts to reflect the correct opening balances and the agreed indexation rate of 0%.
2. Property rental write off A total of £20,969 has been written-off in 2016/17 & 2017/18 in relation to the entire rent due for these periods from an individual renting a SCRA-owned property. SCRA should consider what measures it could undertake to reduce the risk of similar circumstances arising in the future, as well as ensuring that where such circumstances do arise, they are highlighted and resolved swiftly to avoid further loss of income to the organisation. SCRA should also consider putting in place a bad debt provision to cover any such instances of irrecoverable debt that might arise in the future.	In response to a 2016/17 internal audit recommendation, SCRA implemented a system of actively following up overdue invoices on a monthly basis. The Executive Management Team (EMT) has considered a general bad debts provision and concluded this is not required not least as most of SCRA's income is received from other public bodies. Recommendation 1 (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, 4 agreed actions were raised in 2016/17. Of these:

- 2 have been fully implemented
- 2 are not actioned or have only partly been actioned

27. Overall SCRA 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

The balance on SCRA's general fund has reduced significantly in recent years and now stands at a negative position of £2.8 million in 2017/18. SCRA has a relatively high net liabilities position, due to the pension liability.

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 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.

Financial performance in 2017/18

28. The main financial objective for the SCRA is to ensure that the financial outturn for the year is within the budget allocated by the Scottish Government. The SCRA's net expenditure was £26.12m, and the funding from Scottish government was £23.78m, therefore there was an overspend of £2.34m in 2017/18. This is mainly attributable to an increase in IAS 19 adjustment to pension scheme contributions under staff costs.

Short term financial planning

29. The SCRA is funded directly by Grant in Aid received from the Scottish Government. SCRA also has other income streams (£442k in 2017/18) comprised mainly of shared services income (including rents).

30. The SCRA submitted its 2018/19 draft budget in March 2018 with a resource allocation of £22.86m which is £0.67m (3%) more than the 2017/18 budget allocation (£22.2m). The 2018/19 budget allocation was approved by the Scottish Government on 28/03/2018.

31. Around 78% of the 2018/19 budget relates to staff costs. The savings target for staff in 2018/19 has been set at 2.0% (2.5% in 2017/18), and SCRA plan to achieve this by non filling of vacant posts however as this target follows successive years of savings targets in this area, there is a risk that meeting these may be difficult.

Recommendation 2 (refer appendix 1, action plan)

32. Funding from the SG is the SCRA's primary 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 SCRA is achieving a balanced financial plan to remain within their annual allocation.

33. The financial statements show that in recent years the balance on SCRA's general fund has reduced significantly falling from £2.6 million in 2015/16 to a negative position of £0.4 million in 2016/17, then to a negative position of £2.8 million in 2017/18.

34. The decrease is largely due to two areas of expenditure: depreciation and amortisation and pension scheme costs. These amounts are not funded through GiA, having a direct impact upon the general fund balance each year.

Medium to long term financial planning

35. The SCRA has a Strategic Plan covering 2017-2020 which includes a high level financial plan covering the period based on the assumed level of funding and estimated costs against each of its strategic objectives until 2021.

36. The SCRA has produced a 4 year financial plan published September 2017 which outlines the work being undertaken in the year to meet its strategic aims. It has also since presented to board an updated 5 year financial plan for the period 2019/20 to 2023/24 with a number of funding scenarios and potential options to address funding gaps.

37. The plans include strategies to meet future savings targets, with a 1.5% per annum savings target built in over the period 2019/20 to 2023/24 which is estimated to deliver around £275-£325k of cost savings each year. SCRA's strategies include making savings around staff vacancy management, and reducing vacant space where possible. SCRA also continue to scrutinise contracts to deliver better value while reducing costs, and create efficiencies by continuing to work closely with its partners.

38. We concluded that the SCRA are aware of the relevant issues with regard to financial planning challenges, and have adequate medium to long term financial planning arrangements in place.

Governance statement

39. 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.

40. Several risks are set out in the governance statement. These include issues such as security measures are insufficient to prevent a successful cyber-attack on SCRA case information, employer costs of the Falkirk LGPS increasing significantly making the scheme unaffordable within current resources, failure to comply with new Data Protection legislation, and loss of management skills, knowledge and experience in key roles due to inadequate succession planning. The statement also summarises internal audit findings and key reports issued in the year, with the overall conclusion in internal audit's annual report noting that the risk management activities and controls in the areas which they examined were found to be suitably designed to achieve the specific risk management, control and governance arrangements, and these arrangements were operating with sufficient effectiveness to provide reasonable assurance but not absolute assurance that the related risk management, control and governance objectives were achieved for the period under review.

41. 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.

Other matters [as required by the Appendix 5 of the 2017/18 Planning Guidance

42. In the interest of transparency and improved governance, we note that the level of committee information published on the SCRA website could be improved. No Board papers from the 2018 calendar year are currently available on the SCRA website, and only agendas for the Audit Committee have been published. Publishing all agendas and papers for both the Board and Audit Committee, in a timely fashion following the meeting, would represent an improvement in both transparency and governance. Recommendation 3 (refer appendix 1, action plan)

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement

No.	Issue/risk	Recommendation	Agreed management action/timing
1	**Property rental write off** A total of £20,969 has been written-off in 2016/17 & 2017/18 in relation to the entire rent due for these periods from an individual renting a SCRA-owned property. SCRA should consider what measures it could undertake to reduce the risk of similar circumstances arising in the future, as well as ensuring that where such circumstances do arise, they are highlighted and resolved swiftly to avoid further loss of income to the organisation. SCRA should also consider putting in place a bad debt provision to cover any such instances of irrecoverable debt that might arise in the future. **Risk** Risk of loss of income and bad debts not being accounted for in a timely manner.	SCRA should consider putting in place a bad debt provision to cover any such instances of irrecoverable debt that might arise in the future	In response to a 2016/17 internal audit recommendation, SCRA implemented a system of actively following up overdue invoices on a monthly basis. The Executive Management Team (EMT) has considered a general bad debts provision and concluded this is not required not least as most of SCRA's income is received from other public bodies. Responsible officer: Head of Finance and Resources Agreed date: July 2018
2	**Savings target 2018/19** The savings target for staff costs in 2018/19 which accounts for more than three quarters of the revenue budget has been set at 2.0% and	SCRA should continue to review cost savings throughout 2018/19	The EMT and Board will continue to receive timely and robust forecasts from budget holders throughout 2018/19, assess the risks of failing to achieve savings targets, and respond appropriately.

No.	Issue/risk	Recommendation	Agreed management action/timing
	SCRA plan to achieve this by non filling of vacant posts. **Risk** Given this target follows years successive years savings targets in this area, there is a risk that SCRA may find the savings target difficult to achieve.		Responsible officer: Head of Finance and Resources Agreed date: March 2019
3	**Committee information on SCRA website** Regarding good practice in transparency and governance, we note that the level of information for Board and Audit Committee meetings published on the SCRA website could be improved. **Risk** Risk of a lack of transparency regarding decisions made by Board and Audit Committee.	SCRA should consider publishing all agendas and papers for both the Board and Audit Committee, in a timely fashion following the meeting.	Board will consider current arrangements. Responsible officer: PR/CE Agreed date: December 2018
Follow up of prior year recommendations			
b/f	**1. Monitoring of non-current assets** SCRA do not tag all assets in the asset register and it is consequently not possible to identify individual assets on the register. **Risk** The asset register may be inaccurate as individual items cannot be identified for impairment or disposal. There is also an increased risk	The Board should ensure that all items on the asset register are individually identifiable to minimise the risk of fraud and error.	High value / high risk items such as computer equipment are tagged and managed by the IT department. The corporate asset register will be updated to include the IT asset number against each relevant asset. Responsible officer: Accountant Agreed date: 31 December 2017 Updated response Implemented
b/f	**2. West Lothian Civic Centre Lease** The lease agreement for West Lothian Civic Centre has not been signed. This has been an ongoing issue for the Scottish Children's Reporter Administration for a number of years. **Risk**	Management should ensure that the lease agreement is formally signed as soon as possible.	SCRA continues to press West Lothian Council for a signed lease and it is hoped that this will occur before the signing of the Accounts in September 2018. Responsible officer: Head of Finance & Resources Agreed date: 31 October 2017

No.	Issue/risk	Recommendation	Agreed management action/timing
	Without a formal lease agreement there is a risk that either party could terminate the agreement leading to operational instability and potential service disruption.		Updated response Not implemented. Management continue to work hard with West Lothian Council officers towards completion by September 2018. Responsible officer: Head of Finance and Resources Revised date: September 2018
b/f	**3. Savings target 2017/18** A savings target of 2.5% has been agreed for 2017/18, which will largely be met from vacancy management. This target has been increased from 2.4% in 2016/17 which SCRA found difficult to achieve. **Risk** SCRA is unable to achieve the necessary savings and may fail to meet its financial targets for 2017/18	The Board should continue to review achievement of cost efficiency savings in 2017/18.	SCRA achieved 3.5% revenue savings in 2017/18 largely due to vacancy management.
b/f	**4. Financial planning** A new five year Financial Plan is currently being developed which will be will be presented to the Board in summer 2017. The Board recognise that financial sustainability is predicated on balancing recurring expenditure with recurring income and that continued support from Scottish Government will be required to minimise financial risk to SCRA. **Risk** Funding settlements are inadequate to meet service delivery proposals.	To secure financial stability over the medium term, early and continuing engagement with Sponsor Team is required to influence the next Spending Review.	Engagement with Sponsor Team is ongoing 5 year Financial Plan was presented to the Board in June 2018.

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.	Reviewed the appropriateness of journal entries and other adjustments recorded in the general ledger and financial statements. Reviewed accounting estimates for biases. Evaluated significant transactions that are outside the normal course of business. Focussed testing of the regularity and cut-off assertions during the financial statements audit.	We carried out detailed testing of trade payable and trade receivable transactions to ensure that they were posted to the correct financial year. We performed substantive testing on a sample of transactions from each material category of income and expenditure with reference to supporting documentation to confirm that they were accounted for in the correct accounting period. Our conclusion is that there is no evidence of management override of controls at SCRA.
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
4 Financial sustainability The financial statements show that in recent years the balance on SCRA's general fund has reduced significantly, falling from £6.4million in 2014/15 to £2.6million in 2015/16and a negative position of £0.4million in 2016/17.	Review financial planning and monitoring arrangements.	Reviewed financial planning arrangements. Reviewed financial monitoring reports to confirm the expected final outturn position at the year end. The decrease is largely due to two areas of expenditure: depreciation and amortisation and pension scheme costs

Appendix 3

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**	

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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

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