

# Children's Hearings Scotland

2018/19 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Children's Hearings Scotland and the Auditor General for Scotland

27 August 2019

## 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.

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# Key messages

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## 2018/19 annual report and accounts

- 1** Children's Hearings Scotland (CHS) financial statements give a true and fair view and were properly prepared.
- 2** Expenditure and income was in accordance with applicable enactments and guidance.
- 3** 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 applicable requirements.

## Financial sustainability

- 4** We concluded that CHS effectively managed its 2018/19 budget and is aware of the the relevant challenges with regard to financial sustainability, and has adequate medium to long term financial planning arrangements in place.

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# Introduction

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1. This report summarises the findings from our 2018/19 audit of Children's Hearings Scotland (CHS).
2. The scope of our audit was set out in our Annual Audit Plan presented to the 26 February 2019 meeting of the Audit and Risk Management Committee. This report comprises the findings from:
  - an audit of CHS's annual report and accounts
  - our consideration of the financial sustainability of CHS

## Adding value through the audit

3. We add value to CHS through the audit by:
  - identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements
  - reporting our findings and conclusions in public
  - sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
  - providing clear conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.
4. In so doing, we aim to help CHS promote improved standards of governance, better management and decision making and more effective use of resources.

## Responsibilities and reporting

5. CHS has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from Scottish Ministers. CHS is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.
6. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016 and](#) supplementary guidance and International Standards on Auditing in the UK.
7. As public-sector auditors we give independent opinions on the annual report and accounts and conclude on securing financial sustainability and appropriateness of the governance statement disclosures. In doing this, we aim to support improvement and accountability.
8. 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. As highlighted in our

2018/19 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 2018/19 audit.

**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 2018/19 audit fee of £10,810 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**12.** This report is addressed to CHS and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

**13.** We would like to thank the management and staff for their cooperation and assistance during the audit.

# Part 1

## Audit of 2018/19 annual report and accounts



### Main judgements

**CHS's financial statements give a true and fair view and were properly prepared.**

**Expenditure and income was incurred 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 and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.**

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.

### Audit opinions on the annual report and accounts

**14.** The annual report and accounts for the year ended 31 March 2019 were approved by the board on 17 September 2019. We reported, within the independent auditor's report that:

- the financial statements give a true and fair view and were properly prepared
- expenditure and income are regular and 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 and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers
- we have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records and the information and explanations we received.

### Submission of annual report and accounts for audit

**15.** We received the unaudited annual report and accounts on 17 June 2019 in line with our agreed audit timetable.

**16.** 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

**17.** [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual report and accounts and any wider audit dimension

risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

**18.** We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan.

## 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.** Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 1](#). With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

**21.** On receipt of the unaudited annual report and accounts we reviewed our materiality calculations and concluded that they remained appropriate.

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## Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£58,000
Performance materiality	£43,000
Reporting threshold	£5,000

Source: Annual Audit Plan 2018/19

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## Significant findings from the audit (ISA 260)

**22.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.

**23.** The significant findings 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.


## Qualitative aspects of the audit

**24.** The findings include our views about significant qualitative aspects of the 2018/19 accounting practices including: accounting policies, accounting estimates/judgements, significant f/s disclosures, impact of uncertainties etc.



## Exhibit 2

### Significant findings from the audit of the financial statements

Finding	Resolution
<p><b>1. Accounting treatment of dilapidations cost</b></p> <p>During the year, CHS incurred dilapidation costs of £16k relating to the premises at Ladywell Road, which was acquired under an operating lease. In the draft accounts CHS had accounted for these as being capital in nature and recognised them on the statement of financial position. In our view this expenditure was revenue in nature, we requested that the disclosure should be corrected to treat this item as in year administration costs.</p>	<p>CHS agreed to amend the disclosure of this item, which was corrected in the final version of the accounts.</p> <p> <a href="#">Recommendation 1</a> (refer appendix 1, action plan)</p>

Source: Audit Scotland

### How we evaluate misstatements

**25.** There were no material adjustments to the unaudited annual report and accounts arising from our audit.

**26.** It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. Management adjusted for all immaterial errors identified during the audit.

### Follow up of prior year recommendations

**27.** There were no prior year recommendations, this is reflected in [Appendix 1](#).

# Part 2

## Financial sustainability



### Main judgements

**We concluded that CHS achieved financial balance in 2018/19.**

**CHS is aware of the the relevant challenges with regard to financial sustainability, and has adequate medium to long term financial planning arrangements in place.**

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 2018/19

**28.** The main financial objective for CHS is to ensure that the financial outturn for the year is within the budget allocated by the Scottish Government. CHS's net expenditure was £4.34m, and the funding from Scottish Government was £4.18m, therefore there was a small overspend of £0.16m in 2018/19. This is mainly due to IAS 19 adjustments - pension charges and financing costs.

### Short term financial planning

**29.** CHS is funded directly by Grant in Aid received from the Scottish Government.

**30.** CHS submitted its 2019/20 draft budget to the sponsor department in March 2019 with a resource allocation of £4.50m which is £0.32m (7.7%) more than the 2018/19 budget allocation (£4.18m). The 2019/20 budget allocation was approved by the Scottish Government on 11 March 2019.

**31.** Funding from the SG is CHS'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 CHS is achieving a balanced financial plan to remain within their annual allocation.

### Medium to long term financial planning

**32.** CHS has a Corporate Plan covering 2018-2021 which includes a high level plan allocating resources to the high level strategic outcomes.

**33.** CHS also produces an annual business and corporate parenting plan which outlines the work being done to achieve their business objectives and how the future grant in aid will be used to fund these.

**34.** CHS regularly reports its financial position to the board and overall has adequate financial planning arrangements in place.

## EU Withdrawal

**35.** There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver services.
- Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports.
- Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

**36.** We considered the actions taken by the CHS and any risks of EU withdrawal specific to them:

- Workforce –CHS responded to a Scottish Government survey in February 2019. This specifically prompted the organisation to consider its workforce and any impact EU withdrawal could have. CHS employs 25 members of staff, of whom two are EU citizens from outside the UK. The risks to the current group of affected staff members are low, as they would be able to apply for settled status having lived in the UK for longer than five years.
- Funding –CHS does not anticipate withdrawal from the EU to directly impact its funding. CHS does not receive any EU funding and is not reliant on EU funding.
- Regulation - CHS does not anticipate potential changes to EU regulations to impact its day to day work.

**37.** EU withdrawal is not considered a significant risk for the organisation and is not a standing item on the Board or Senior Management Team's Agendas. CHS will continue to monitor developments, be informed through their professional networks and Scottish Government colleagues and raise on an ad-hoc basis anything that meets the standard of needing a discussion or decision.

**38.** We have concluded that CHS has made sufficient preparations for EU withdrawal and that is is not currently a significant risk.

# Appendix 1

## Action plan 2018/19



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Accounting treatment of dilapidations cost</b></p> <p>During the year, CHS incurred dilapidation costs of £16k relating the premises at Ladywell Road, which was acquired under an operating lease. In the draft accounts CHS had accounted for these as being capital in nature and recognised them on the statement of financial position. In our view this expenditure was revenue in nature, we requested that the disclosure should be corrected to treat this item as in year administration costs.</p> <p><b>Risk</b> – CHS accounts may not reflect the cost of operating leases and dilapidations correctly.</p>	<p>We recommend that in future where an operating lease will have dilapidations, a provision is set up on initiation and the charge for that provision spread over the life of the lease by a reducing prepayment. At the end of the lease the cost of the dilapidations would be charged to the provision.</p>	<p>Accepted. The 2018/19 accounts have been amended. CHS will review its operating leases in 19/20 for potential future dilapidations and, where these are material, will consider making a provision.</p> <p>SCRA Finance Manager February 2020</p>
<b>Follow up of prior year recommendations</b>			
3	N/A	N/A	N/A

# 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
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of management override of controls</b></p> <p>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 to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries</p> <p>Review of accounting estimates</p> <p>Focused testing of accruals and prepayments</p> <p>Evaluation of significant transactions that are outside the normal course of business</p>	<p>We reviewed the appropriateness of journal entries and other adjustments recorded in the general ledger and financial statements.</p> <p>We reviewed accounting estimates for biases and evaluated significant transactions that are outside the normal course of business.</p> <p>We carried out detailed testing of trade payable and trade receivable transactions to ensure that they were posted to the correct financial year.</p> <p>We performed substantive testing on a sample of transactions from each material category of expenditure with reference to supporting documentation to confirm that they were accounted for in the correct accounting period.</p> <p>Our conclusion is that there is no evidence of management override of controls at the CHS.</p>
<p><b>2 Risk of fraud over expenditure</b></p> <p>Most public-sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure.</p>	<p>Assess high level key controls in relevant key financial systems</p> <p>Focussed substantive testing of expenditure</p>	<p>We assessed high level key controls within payroll, accounts payable and general ledger systems.</p> <p>We performed substantive testing on a sample of transactions from each material category of expenditure with reference to supporting documentation to confirm these were appropriately authorised and valid.</p>

Audit risk	Assurance procedure	Results and conclusions
		Our conclusion is that we found no evidence of fraud over expenditure from our testing.

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# Appendix 3

## Summary of national performance reports 2018/19

### 2018/19 Reports

Local government in Scotland: Challenges and performance 2018		<b>Apr</b>	
Councils' use of arm's-length organisations		<b>May</b>	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		<b>Jun</b>	
		<b>Jul</b>	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		<b>Aug</b>	 Major project and procurement lessons
Children and young people's mental health		<b>Sept</b>	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		<b>Oct</b>	
Health and social care integration: update on progress		<b>Nov</b>	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		<b>Mar</b>	 Local government in Scotland: Challenges and performance 2019

# Children's Hearings Scotland

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