

Scottish Children's Reporter Administration

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for Scottish Children's Reporter Administration

February 2020

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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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit.

2. As detailed at paragraphs 25 to 26, in consideration of the size and nature of Scottish Children Reporters Administration (SCRA), and based on our professional judgement, we have concluded that the full application of the wider scope is not appropriate or proportionate. Our annual audit work on the wider scope is therefore focused on the appropriateness of disclosures in the governance statement and the financial sustainability of SCRA over the medium to longer term.


Adding value

3. We aim to add value to SCRA through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help SCRA promote improved standards of governance, better management and decision making and more effective use of resources.

Audit risks

4. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for SCRA. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1 2019/20 Significant audit risks

	Audit Risk	Source of assurance	Planned audit work
Financial statements risks	<p>1</p> <p>Risk of material misstatement caused by management override of controls</p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> • 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.

controls that results in fraudulent financial statements.

2	Risk of material misstatement caused by fraud in expenditure As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements. Although no specific indication of fraud over expenditure has been identified to date, the range of different sources of expenditure combined with the relative high volume of transactions gives rise to a potential fraud risk.	Clear procedures in place for staff. Financial authorisation limits in place. Robust and timely budget monitoring and discussions.	<ul style="list-style-type: none">• Assess high level key controls in relevant financial systems.• Focussed substantive testing of expenditure.
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Wider dimension risks

3	Financial sustainability The financial statements show that in recent years there has been a significant reduction in SCRA's General Fund, from £6.4million in 2014/15 to a negative position of £3.9 million in 2018/19. This is mainly due to two areas of expenditure – depreciation / amortisation and pension scheme costs. These amounts are not funded through Grant-In-Aid. In the absence of further assurances as to funding from the Scottish Government there is a risk that SCRA are unable to manage the issue without adversely impacting service delivery.	Financial planning process in place with regular updates of five-year financial plan. Budget monitoring process in place with regular forecast presented to Board. Assurances from the Scottish Government on financial stability going forward	<ul style="list-style-type: none">• Review financial planning arrangements.• Review financial monitoring reports to confirm the expected final outturn position at the year-end.• Review evidence of assurances provided by Scottish Government.
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Source: Audit Scotland

5. As set out in ISA 240 there is a presumed risk of fraud in the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. We have rebutted the risks of material misstatement caused by fraud in income recognition in 2019/20 as SCRA receives predominantly all its income from the Scottish Government through grant-in-aid. This will be verified substantively to grant letters.

Reporting arrangements

6. Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

7. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

8. We will provide an independent auditor's report to SCRA, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

Exhibit 2 2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	7 February 2020	18 February 2020
Independent Auditor's Report	25 August 2020	27 August 2020
Annual Audit Report	7 August 2020	27 August 2020

Source: Audit Scotland

Audit fee

9. The proposed audit fee for the 2019/20 audit of SCRA is £32,860 [Prior year fee - £32,430]. In determining the audit fee we have taken account of the risk exposure of SCRA and the planned management assurances in place. Our audit approach assumes receipt of the unaudited annual accounts with a complete working papers package by 29 May 2020.

10. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Responsibilities

Audit Committee and Accountable Officer

11. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

12. The audit of the annual accounts does not relieve management or the Audit and Risk Committee, as those charged with governance, of their responsibilities.

Appointed auditor

13. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

14. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Annual accounts

15. The annual accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of Scottish Children's Reporter Administration and the associated risks which could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how SCRA Scottish Children's Reporter Administration will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

16. We will give an opinion on whether the financial statements:

- give a true and fair view in accordance with the Children's Hearings (Scotland) Act 2011 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2020 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Financial Reporting Manual (FRM); and
- have been prepared in accordance with the requirements of the Children's Hearings (Scotland) Act 2011 and directions made thereunder by the Scottish Ministers.



characteristics



responsibilities



principal activities



risks



governance arrangements

Statutory other information in the annual accounts

17. We also review and report on statutory other information published within the annual accounts including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

18. We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

Materiality

19. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit; of any uncorrected misstatements on the financial statements; and in forming our opinions in the independent auditor's report.

20. We calculate materiality at different levels as described below. The calculated materiality values for SCRA are set out in [Exhibit 3](#).

Exhibit 3 Materiality values



Materiality	Amount
Planning materiality – This is the figure we calculate to assess 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 2019 based on the audited accounts for 2018/19	£395,000
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 planning materiality.	£296,000
Reporting threshold (i.e., clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	£20,000

Source: Audit Scotland

Timetable

21. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#).

Exhibit 4 Annual accounts timetable

 Key stage	 Date
Latest submission date of unaudited annual report and accounts with complete working papers package	29 May 2020
Latest date for final clearance meeting with Director of Finance	31 July 2020
Issue of Letter of Representation and proposed independent auditor's report	7 August 2020
Agreement of audited unsigned annual report and accounts	7 August 2020
Independent auditor's report signed	23 September 2020
Issue of Annual Audit Report to those charged with governance	7 August 2020

Internal audit

22. Internal audit is provided by BDO. As part of our planning process we carry out an annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). ISA 610 requires an assessment on whether the work of the internal audit function can be used for the purposes of external audit. This includes:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

23. Overall we concluded that the internal audit service operates in accordance with PSIAS and has sound documentation and reporting procedures in place.

Using the work of internal audit

24. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We will continue to engage with internal audit on key issues related to the audit. On this occasion, however, we do not plan to place reliance on internal audit work for our financial statements responsibilities.

Audit dimensions

25. 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 accountability and value for money.

26. The Code of Audit Practice 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. In light of the volume and lack of complexity of the financial transactions, we plan to apply the small body provisions of the Code to the 2019/20 audit of SCRA.

Independence and objectivity

27. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

28. The engagement lead for SCRA is Alasdair Craik, Senior Audit Manager. Auditing and ethical standards require the engagement lead to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of SCRA.

Quality control

29. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

30. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality

standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

31. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

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