

Scottish Children's Reporter Administration

2022/23 Annual Audit Report



 AUDIT SCOTLAND

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

August 2023

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Key messages

2022/23 annual report and accounts

- 1 Audit opinions on the annual report and accounts are unmodified, i.e. the financial statements and related reports are free from material misstatement.
- 2 Our annual audit plan identified the key risks of material misstatement in the Scottish Children's Reporter Administration's (SCRA) annual report and accounts. Our audit work did not identify any significant matters to draw to the attention of the Audit and Risk Committee.
- 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 relevant legislation and directions made by Scottish Ministers.

Wider-scope

- 4 SCRA has effective and appropriate arrangements in place to continue to deliver services.
- 5 SCRA has a 5-year strategic financial plan. This includes a number of significant financial risks which will require close monitoring and review going forward.
- 6 Governance Statement disclosures are consistent with the financial statements and comply with statutory guidance.

Introduction

1. This report summarises the findings from our 2022/23 audit of Scottish Children's Reporter Administration (or SCRA). The scope of the audit was set out in our Annual Audit Plan presented to the 25 May 2023 meeting of the Audit and Risk Committee. This Annual Audit Report comprises:

- significant matters arising from our audit SCRA's annual report and accounts
- wider scope areas that frame public audit are set out in the [Code of Audit Practice 2021](#), which for less complex bodies includes conclusions on financial sustainability, disclosures in the governance statement and high level assessment of arrangements to secure best value.

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

Audit appointment from 2022/23

3. I, Asif A Haseeb OBE, has been appointed by the Auditor General as auditor of SCRA for the period from 2022/23 until 2026/27. The 2022/23 financial year is the first of his five-year appointment. The audit appointment coincides with the new Code of Audit Practice (the Code) which was introduced for financial years commencing on or after 1 April 2022.

4. We would like to thank all board members, the accountable officer, directors and other staff, particularly those in finance, for their cooperation and assistance this year and we look forward to working together constructively over the course of the five-year appointment.

Responsibilities and reporting

5. SCRA 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. SCRA is also responsible for compliance with legislation, putting arrangements in place for governance, propriety and regularity.

6. The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2021](#) and supplementary guidance and International Standards on Auditing in the UK.

7. The Code of Audit Practice 2021 (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 2022/23 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 2022/23 audit.

8. The weaknesses or risks identified in this report 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.

9. This report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation.

Auditor Independence

10. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £44,830 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

11. We add value to SCRA by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice identified.

Part 1. Audit of 2022/23 annual report and accounts

Public bodies are required to prepare annual report and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

Main judgements

Audit opinions on the annual report and accounts are unmodified.

SCRA's financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.

Material adjustments have been made to the annual report and accounts as a result of the audit process.

Expenditure and income were 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

Audit opinions on the annual report and are unmodified

12. The board anticipates approving the annual report and accounts for the SCRA for the year ended 31 March 2023 on 20 September 2023. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- 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.

Overall materiality was assessed on receipt of the annual report and accounts as £680,000

13. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the accounts, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

14. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in Exhibit 1.

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£680,000
Performance materiality	£510,000
Reporting threshold	£35,000

Source: Audit Scotland

15. The overall materiality threshold was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements. Our assessment of the base percentage for materiality has not changed since we considered it during the planning phase.

16. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. In assessing performance materiality, we considered factors such as findings from previous audits, our planning work and the entity's control environment including fraud risks.

17. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

18. Under International Standard on Auditing (UK) 260, we communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices.

19. The Code of Audit Practice also requires all auditors to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

20. The significant findings and key audit matters are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
<p>1. IAS 19 Pension Asset Ceiling</p> <p>SCRA initially recognised a pension asset of £20.2 million due to the valuation provided by their actuary.</p> <p>SCRA's actuary provided further analysis that confirmed that a pension asset ceiling could be applied which limits the asset recognised in the financial statements.</p> <p>During the audit we reviewed International Financial Reporting Standards Interpretations Committee (IFRIC 14) guidance on <i>The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>.</p> <p>Our review concluded that for SCRA, no defined benefit plan asset or liability should be recognised in the 2022/23 financial statements.</p>	<p>SCRA has amended the financial statements, recognising no pension asset or liability as at 31 March 2023.</p> <p>We are content with this treatment.</p>
<p>2. IFRS 16 Disclosures</p> <p>There were no numerical adjustments required for the introduction of IFRS 16 in the statement of financial position. There were presentational issues identified in relation to the disclosure of Right of Use Assets (ROUAs).</p> <p>The Government Financial Reporting Manual (FRM) requires right of use assets to be disclosed on the face of the statement of financial position and have a separate note to the accounts. It should not be included as part of the Property Plant and Equipment disclosures.</p> <p>The application guidance also specifies that the depreciation element of ROUAs, as well as the lease liability cash repayments, are to be</p>	<p>SCRA has amended the presentation of the disclosures within financial statements in order to comply with the requirements of the FRM.</p> <p>We are content with the amended disclosures.</p>

Issue	Resolution
<p>presented in the Statement of Cash Flows when applying IAS 7 Statement of Cash Flows.</p> <p>It does not specify to include lines for the recognition of Right of Use Assets which SCRA had included in the Statement of Cash Flows at £6.3 million and the liability at £6.2 million.</p>	
<p>3. Capital payables and accruals in the Statement of Cash Flows (CFS)</p> <p>The Government Financial Reporting Manual (FReM) requires entities to analyse capital expenditure and financial investment as part of the CFS. In doing so, entities should adjust for debtors and creditors relating to capital expenditure.</p> <p>The CFS presented in the draft accounts did not have these required capital adjustments totalling £317k.</p>	<p>SCRA has agreed to amend the Statement of cash flows including a restatement of the 2021-22 CFS adjustment for capital payables and accruals.</p> <p>We are content with the treatment in the audited accounts.</p>

Our audit work responded to the risks of material misstatement we identified in the annual report and accounts

21. We have obtained audit assurances over the identified significant risks of material misstatement to the annual report and accounts. [Exhibit 3](#) sets out the significant risks of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3

Identified significant risks of material misstatement in the annual report and accounts

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to</p>	<p>Enquired about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Completed a journal risk assessment to identify journals of higher risk from which to sample test.</p>	<p>We did not identify any issues as a result of our audit work that would indicate management override of controls affecting the year-end position.</p>

Audit risk	Assurance procedure	Results and conclusions
override controls that otherwise appear to be operating effectively.	<p>Tested journals at the year-end and post-closing entries and focussed on significant risk areas.</p> <p>Performed detailed testing of journals.</p> <p>Evaluated significant transactions outside the normal course of business.</p> <p>Assessed the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements.</p> <p>Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</p> <p>Substantively tested transactions around the year-end to confirm they are accounted for in the correct financial year.</p> <p>Performed focussed testing of accounting accruals and prepayments.</p>	

22. In addition, we identified “areas of audit focus” in our 2022/23 Annual Audit Plan where we considered there to be other risks of material misstatement to the financial statements. The areas of specific audit focus were.

- Estimates and judgement in the valuation of the pension liability: There is a large degree of subjectivity in the measurement and valuation of the pension fund asset. The valuation is based on specialist assumptions and estimates and changes can result in material changes to the valuation. Our work in this area is detailed in [Exhibit 2](#) above.
- Estimation and judgement in the valuation of land and buildings: SCRA held land and buildings with a net book value (NBV) of £5.117 million as at 31 March 2023. There is a large degree of subjectivity in the valuation of land and buildings. Valuations are based on specialist and management assumptions and estimates, and changes in these can result in material changes to valuations. No valuation was carried out in 2022/23 and we are content there is no material misstatement in the valuation of land and buildings.

- IT risks - under the revised ISA (International Standards on Auditing) 315 we are required to have a greater understanding of the systems and risk arising from the use of IT systems. There were no reportable risks as a result of that work.

23. We kept these areas under review throughout our audit. Based on the findings of the audit procedures performed, we have reported an issue in relation to the valuation of pensions which is summarised in [Exhibit 2](#).

There were no identified misstatements

24. Other than the corrected material misstatement detailed as a significant finding in [Exhibit 2](#) above, there were no other misstatements above our reporting threshold.

25. Our review of the performance report against the requirements of the FReM identified that some required information was not included in the correct section. Management agreed to make the necessary presentational changes to comply with the FReM.

Recommendation 1

Management should include a review of the performance report against FReM requirements in their annual accounts process in future years.

The unaudited annual report and accounts were received in line with the agreed timetable

26. The unaudited annual report and accounts were received in line with our agreed audit timetable. The first draft of the annual report and accounts and working papers were of a high quality. Finance staff were available throughout the final accounts process and made onsite working space available for the audit team.

Good progress was made on prior year recommendations

27. SCRA has made good progress in implementing prior year audit recommendations. We followed up on actions agreed in the 2021/22 Annual Audit Report, to assess what progress on implementations had been made. All recommendations were implemented during 2022/23 as set out in Appendix 1.

Part 2. Wider Scope

For less complex bodies wider-scope audit work considers the financial sustainability of the body and the services that it delivers over the medium to longer term

Conclusion

SCRA has effective and appropriate arrangements in place to continue to deliver services.

SCRA has a 5-year strategic financial plan. This includes a number of significant financial risks which will require close monitoring and review going forward.

Governance Statement disclosures are consistent with the financial statements and comply with statutory guidance.

SCRA operated within its Departmental Expenditure Limit for 2022/23

28. The main financial objective for SCRA is to ensure that the financial outturn for the year is within the budget allocated by the Scottish Government.

29. After adjusting for unfunded pension benefits and expenditure not chargeable against the resource Departmental Expenditure Limit (DEL), principally treatment of property rental payments under IFRS16, SCRA has reported an outturn of £28.395 million against its overall budget for 2022/23 of £29.626 million. The financial performance against its DEL is shown in [Exhibit 4](#).

Exhibit 4

Performance against DEL in 2022/23

Performance	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
Resource DEL	25.16	27.676	26.836	(0.840)
Capital DEL	1.7	1.95	1.559	(0.391)
Total DEL	26.86	29.626	28.395	(1.231)

Source: SCRA Annual accounts and report 2022/23

SCRA's 5-year strategic financial plan includes a number of financial risks which will require close monitoring and review going forward.

30. In September 2022, the SCRA board approved a revised financial strategy covering the period 2023-2028. The strategy highlights the ongoing financial risk in relation to Covid-19 and legislative changes that will impact on SCRA including the Children (Scotland) Act 2020. It also highlights the significant changes made to SCRA's operating model, including an Agile Working Policy, introduction of a Virtual Hearings Platform and changes to the staffing profile as a result of the recruitment of temporary Reporters and Assistant Reporters.

31. The strategy includes a savings target of 1.5% in each of the five years and forecasts required Grant in Aid increases of 9% in 2023/24 and 6% for each of the following three years. The strategy also considers different funding scenarios and the impact of different levels of pay awards.

32. An updated strategy is due to be presented to the SCRA board in September 2023. From discussions with management the challenge will be to balance the requirements of delivering increased service with an ever-tightening budget envelope as outlined in the recent Scottish Government resource spending review.

33. There will be further large increases in anticipated costs from 2024/25 onwards. The key increases are due to legislative and operational change as outlined below.

- Legislative change will be required in order to support the implementation of the Promise through the Promise Bill. SCRA have commenced new Programmes of work that will improve services to children in the short term and contribute to preparations for the introduction of the bill.
- The Children's Care and Justice Bill makes changes to the law in relation to the care of children and the involvement of children in the criminal justice system. The Bill is projected to have a significant impact on the work of the hearings system and SCRA. The main change impacting on CHS is that the definition of "child" in the hearings system is changing from someone under 16 to someone under 18. SCRA's projections for the workload and budgetary impact of this change have been included in the Bill's Financial Memorandum and are reflected in the five-year Financial Plan with a large increase in staffing required in 2024/25.

34. We consider that SCRA has satisfactory financial planning arrangements in place which reflect the potential impacts on the provision of future services.

35. SCRA should work alongside the Scottish Government to ensure that these key pressures are appropriately funded in future medium-term financial plans in particular the costs associated with the introduction of the Children's Care and Justice Bill.

Governance Statement disclosures are consistent with the financial statements and comply with statutory guidance

36. Our review of the Governance Statement within the annual report and accounts assessed the assurances which are provided to the Accountable Officer regarding the adequacy and effectiveness of SCRA's system of internal control which operated in the financial year. As in previous years, the Accountable Officer has placed reliance on the assurances provided by senior staff who are responsible for the development and maintenance of the internal control framework and the Audit and Risk Committee.

37. The Accountable Officer also relied on internal audit findings reported during the year, and their overall opinion.

38. We concluded that the information in the Governance Statement is consistent with the financial statements and complies with the guidance issued by Scottish Ministers.

Appropriate governance arrangements are in place

39. Our review of the minutes and papers submitted to the Board throughout the year concluded that they are sufficiently detailed and comprehensive to allow for effective decision making and scrutiny of performance.

40. We attend Audit and Risk Committee meetings and note that these are well attended. Papers are circulated in good time and members provide effective scrutiny and challenge.

SCRA has appropriate arrangements in place for securing Best Value

41. Ministerial Guidance to Accountable Officers for public bodies and the Scottish Public Finance Manual (SPFM) sets out the Accountable Officer's duty to ensure that arrangements are in place to secure Best Value. The guidance sets out the key characteristics of Best Value and states that compliance with the duty of Best Value requires public bodies to take a systematic approach to self-evaluation and continuous improvement. As part of our 2022/23 audit we have undertaken a high-level review of SCRA's Best Value arrangements.

42. The Chief Executive of SCRA is the designated Accountable Officer. A range of processes are in place to help the Accountable Officer demonstrate Best Value. These include:

- an appropriate management structure, which sets out clear lines of responsibility and reporting, and robust systems used in decision-making, budgeting, procurement and risk management
- regular monitoring of performance including financial performance against budget
- appropriate governance and accountability arrangements including a systematic approach to risk management
- an established approach to partnership working with other organisations

- development of a corporate sustainability policy which will help ensure sustainability is factored into future decision-making.

43. We concluded that SCRA has an appropriate best value framework in place.

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Performance Report compliance with FReM</p> <p>There were presentational issues identified in relation to the disclosure of key information required by the 2022/23 FReM.</p> <p>Risk – There is a risk that SCRA accounts do not comply with the FReM.</p>	<p>SCRA should continue to review and update the Performance Report on an annual basis to ensure they are presenting the key information including financial information in a user-friendly way and to ensure that all FReM requirements are met.</p> <p>Paragraph 25</p>	<p>Agreed.</p> <p>The Finance Manager will review the draft 2023-24 Performance Report for compliance with the FReM.</p> <p>SCRA Finance Manager</p> <p>31 May 2024</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Resolution
<p>b/f1. Development of CSAS System</p> <p>There is no formal agreement between SCRA and CHS in relation to the CSAS system. Responsibilities around the current operation, maintenance and any future developments should be considered to ensure clarity around each party's role.</p> <p>Risk: There is a risk that the lack of formalised arrangements could lead to misunderstandings in responsibilities and</p>	<p>SCRA and CHS should formally agree how the operation, maintenance, and development of the CSAS system should be taken forward.</p>	<p>A report was approved by the Digital Change Advisory Board in April 2023 which evidences agreement on the operation, maintenance, and development of CSAS system.</p> <p>Complete</p>

Issue/risk	Recommendation	Resolution
<p>accountability over future systems development.</p> <p>b/f2. Internal Control improvements</p> <p>We noted some areas where there is scope for improvement to the operation of certain internal controls. This included controls around eFinancials and payroll reconciliations.</p> <p>Risk: There is a risk that internal controls do not operate effectively resulting in increased opportunity for fraud and irregularity to occur.</p>	<p>SCRA should review the controls around their key financial systems in order to ensure minimal opportunity for fraud and irregularity.</p>	<p>The audit team completed an evaluation of the key controls within the main accounting systems. We concluded that prior year recommended improvements had been largely satisfied. The minor improvements that we identified were communicated to those charged with governance at the 25 May Audit and Risk Committee meeting.</p> <p>Complete</p>
<p>b/f3. Performance Report</p> <p>There is scope to provide a more informative and more easily understandable picture of performance.</p> <p>Risk: There is a risk that the information provided in the performance report is unclear or misstated leading to a lack of clarity.</p>	<p>SCRA should review the content and presentation of its performance report to ensure it takes full advantage of the opportunity to communicate directly to stakeholders about its activities.</p>	<p>We have concluded that improvements had been made to the content and Presentation of the performance Report. Notably there is specific evidence of enhanced readability, better use of graphics and the report is generally more reflective of the numerical information within the financial statements.</p> <p>As per paragraph 25 however we did identify a few examples where the Performance Report did not comply with the disclosure requirements as per the 2022/23 FReM</p> <p>Superseded by recommendation 1</p>

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility



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