

Children's Hearings Scotland

2023/24 Annual Audit Report



 AUDIT SCOTLAND

Prepared for CHS and the Auditor General for Scotland
September 2024

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Key messages

2023/24 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** Key risks arising from the audit of Children's Hearings Scotland (CHS) annual report and accounts in our Annual Audit Plan were presented to the Audit Committee on 27 February 2024. There are no significant matters from that work to draw to the attention of the Board.
- 3** Expenditure was incurred in accordance with applicable enactments and guidance.
- 4** 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

- 5** CHS operated within its revised budget for 2023/24.
- 6** There is a 5-year strategic financial plan but there are significant cost pressures.
- 7** Governance Statement disclosures are consistent with the financial statements and comply with statutory guidance.
- 8** Governance processes should be improved to clarify the arrangements in place to recognise volunteers' contributions.
- 9** CHS is working effectively with partners to meet stated outcomes and improvement objectives.

Introduction

1. This report summarises the findings from the 2023/24 annual audit of Children’s Hearings Scotland (also referred to as ‘CHS’). The scope of the audit was set out in our Annual Audit Plan presented to the 27 February 2024 meeting of the Audit and Risk Management Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of CHS’ annual report and accounts
- conclusions on financial sustainability as required by the [Code of Audit Practice 2021](#).

2. 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 in due course.

Audit appointment

3. Asif A Haseeb OBE has been appointed by the Auditor General as auditor of CHS for the period from 2022/23 until 2026/27. The 2023/24 financial year was the second of his five-year appointment.

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 remainder of the five-year appointment.

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.

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 (ISAs).

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 2023/24 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 2023/24 audit.

8. The weaknesses or risks identified in this report are only those which have come to the attention of the audit team 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 the audit team 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 audit fee of £15,840 as set out in our 2023/24 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

11. The annual audit adds value to CHS by:

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

Part 1. Audit of 2023/24 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, i.e. the financial statements and related reports are free from material misstatement.

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.

Audit opinions on the annual report and are unmodified

12. The board is expected to approve the annual report and accounts for CHS for the year ended 31 March 2024 on 17 September 2024. As reported in the independent auditor's report, in our opinion:

- 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 parts of the Remuneration and Staff Report were prepared in accordance with the Government Financial Reporting Manual
- the Performance Report and Governance Statement were all consistent with the financial statements and properly prepared in accordance with the Government Financial Reporting Manual.

Overall materiality was assessed on receipt of the annual report and accounts as £150,000

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 phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#)

15.

Exhibit 1 Materiality values

| Materiality level | Amount |
|-------------------------|----------|
| Overall materiality | £150,000 |
| Performance materiality | £115,000 |
| Reporting threshold | £10,000 |

16. 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.

17. 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. Performance materiality was set at 75% of overall materiality, reflecting that there have been limited prior year errors and that we did not identify significant issues during our planning work.

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

Significant findings and key audit matters

19. Under ISA (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.

20. The Code of Audit Practice also requires that we highlight key audit matters which are defined in ISA (UK) 701 as those matters judged to be of most significance.

21. 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. Registers of interest</p> <p>Our work identified that updated registers of interest had not been completed by all senior management and Board Members in advance of the draft accounts being produced. There was therefore a risk that the related parties disclosed in the accounts were not complete.</p> | <p>We requested up-to-date registers of interest (RoI) that were completed during the final accounts process. We then performed a review of the RoIs to ensure that the related parties note was complete. We did not identify any material related parties as a result.</p> <p>Recommendation 1</p> <p>(refer Appendix 1, action plan)</p> |
| <p>2. Remuneration Report issues</p> <p>Our review of the remuneration report identified changes that were required to ensure compliance with disclosure requirements of the Government Financial Reporting Manual (FReM). One such issue was the disclosure of the real increase in Cash Equivalent Transfer Value (CETV), which required adjustment to be in line with requirements.</p> | <p>Management updated the Remuneration Report to ensure it is in line with the FReM, which included adjusting the CETV values provided by the actuary to ensure they are in line with the requirements of the FReM. We are content that the Remuneration Report is now in accordance with requirements.</p> <p>Recommendation 2</p> <p>(refer Appendix 1, action plan)</p> |

Audit work responded to the risks of material misstatement identified in the annual report and accounts

22. 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 identified in our 2023/24 Annual Audit Plan. It also summarises the further audit procedures 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 ISA (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p> | <ul style="list-style-type: none"> • Enquired about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Tested journals and accounting adjustments at the year-end, focusing on significant risk areas. • Considered the need to test journal entries and other adjustments throughout the year. • Evaluated significant transactions outside the normal course of business. • Assessed the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. • Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantively tested transactions around the year-end to confirm they were accounted for in the correct financial year. • Performed focussed testing of accounting accruals and prepayments. | <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> |

23. In addition, we identified “areas of audit focus” in our 2023/24 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:

- **Risk of material misstatement in respect of pension estimation and valuation due to there being a high level of complexity and uncertainty involved in IAS 19 accounting**

There is therefore an inherent estimation risk over the valuation of the pension asset or liability and pension costs. Our audit approach included considering the actuarial assumptions applied to assess whether they are complete, appropriate to CHS’ circumstances and free from misstatement.

24. We performed detailed work in response to this risk area. Based on the findings of the audit procedures performed, there are no matters which we need to bring to your attention.

There were no material misstatements identified within the financial statements

25. There were no material misstatements identified throughout the audit of the financial statements.

26. Any non-material misstatements were subsequently corrected, and there were no uncorrected misstatements above our reporting threshold of £10,000.

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

27. The unaudited annual report and accounts were received in line with the agreed audit timetable during the week commencing 24 June 2024. The first draft of the accounts was of a good quality, allowing audit work to commence in a timely manner. However, we noted that the performance report was incomplete and required several changes throughout the audit process.

28. We also noted that CHS had made improvements to the financial disclosures in the 2023/24 accounts, taking on board adjustments that had been made during the 2022/23 audit to ensure that this year’s accounts were in line with the FReM.

Progress on prior year recommendations

29. CHS has made some progress in implementing the agreed prior year audit recommendations. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

30. There continues to be a significant risk of cyber-attacks to public bodies, and it is important that organisations have appropriate cyber security arrangements in place. We followed up on an area for improvement identified in 2022/23

regarding the introduction of business continuity plan testing. We are aware that CHS has business continuity and disaster recovery plans in place. Management should ensure that these plans are updated and tested on a regular basis.

Recommendation 3

CHS should ensure that the Business Continuity and Digital Disaster Recovery plans are updated and tested on a regular basis.

31. In the previous year we identified a weakness in record keeping where assets in the fixed asset register maintained by finance were not included in the asset tracker spreadsheet maintained by IT. There is a risk that fixed assets as reported in the accounts are misstated.

32. Whilst the amounts are not material to the financial statements, we would recommend that the Finance and IT teams work together to ensure the financial statements reflect an accurate position, taking into account additions and disposals of assets. As part of the accounts preparation in 2024/25, it is recommended that work is undertaken to ensure the asset tracker reconciles to the fixed asset register.

Recommendation 4

Finance and IT should work together to ensure the financial statements reflect an accurate position of CHS' non-current assets.

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

Conclusions

CHS operated within its revised budget for 2023/24

There is a 5-year strategic financial plan but there are significant cost pressures

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

Governance processes should be improved to clarify the arrangements in place to recognise volunteers' contributions

CHS is working effectively with partners to meet stated outcomes and improvement objectives

CHS operated within its revised budget for 2023/24

33. 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.

34. CHS has reported an outturn of £7.735m against its overall budget for 2023/24 of £7.972m. The financial performance against its Departmental Expenditure Limits (DEL) is shown in [Exhibit 4](#).

Exhibit 4

Performance against DEL in 2023/24

| Performance | Final budget £m | Outturn £m | Over/(under) spend £m |
|--------------|--------------------|---------------|-----------------------------|
| Resource DEL | 7.472 | 7.235 | (0.237) |
| Capital DEL | 0.5 | 0.5 | - |

| | | | |
|-----------|-------|-------|---------|
| Total DEL | 7.972 | 7.735 | (0.237) |
|-----------|-------|-------|---------|

Source: CHS Annual report and Accounts 2023-24 and Directorate for Children & Families

CHS has a 5-year strategic financial plan but faces significant cost pressures

35. CHS face significant cost pressures as a result of The Promise, the Children's Care and Justice Bill and the costs associated with implementing the new Tribunal Support Model. In 2024/25 CHS budgeted for costs of £10.8m whilst the funding allocation is £5.8m. This leaves an in-year resource pressure of £5m.

36. CHS has a 2024/25 – 2028/29 financial plan which was approved by the Board in November 2023. CHS' forecast includes additional costs relating to legislative change, including a projected 3,425 additional hearings annually as a result of the Children's Care and Justice Bill as well as costs associated with completing the implementation of the Tribunal Support Model. Forecasts in the financial plan are based on several assumptions including pay uplifts, inflationary costs, and delivery of strategic outcomes as currently understood.

37. The 5-year financial plan includes planned savings such as utilising virtual and online tools where appropriate, using internal training and meeting room facilities where possible and monitoring staffing costs, to meet an annual 3% savings target.

38. It is important that CHS continues to work with the Scottish Government to identify ways to address the funding gap and ensure financial sustainability.

Recommendation 5

CHS should continue to work with the Scottish Government to identify ways to address the funding gap.

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

39. 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 CHS' 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 (formerly the Audit and Risk Management Committee).

Governance processes should be improved to clarify the arrangements in place to recognise volunteers' contributions

40. In May 2024, CHS held a business meeting and valedictory event for its 22 volunteer Area Convenors at a cost of £11k. CHS' aim of the event was to:

- recognise volunteers' outstanding role and leadership of change
- recognise and celebrate their combined service of 227 years to civic Scotland
- give them a dignified ending of their time with the Children's Hearing System following the Tribunal Support Model change programme.

41. Although the event took place in the 2024/25 financial year, the invoice was paid in 2023/24 and correctly recorded as a prepayment in 2023/24. The event was held in Edinburgh, where volunteers travelled from all over Scotland to attend the event. Some staff and Board members also attended to recognise the contribution made by these volunteers to children's hearings.

42. Our work identified that CHS did not have a policy in place to guide the cost of food, beverages, and overnight accommodation. There is a devolved funding policy which outlines the types of recognition and gifts that volunteers are entitled to, depending on their length of service. However, this policy doesn't specifically include national events of this type.

43. Additionally, although CHS' devolved funding policy sets out that alcohol cannot be provided to volunteers and/or staff, this policy was waived for this event by the Accountable Officer. There is no formal guidance setting out in which circumstances aspects of a policy can be waived.

44. In order to ensure that CHS events are in line with the principles of value for money, and demonstrate good governance, we have made the following recommendation to management.

Recommendation 6

There should be a clear policy setting out key considerations when planning an event, including guidelines for spend on areas such as food, beverages, and overnight accommodation.

There should be clear guidance on the circumstances in which a policy may be waived.

CHS has Best Value arrangements but there is room for improvement

45. Ministerial Guidance to Accountable Officers for public bodies and the Scottish Public Finance Manual (SPFM) set 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 2023/24 audit, we have undertaken a high-level review of CHS's Best Value arrangements.

46. The Chief Executive of CHS 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
- a systematic approach to risk management
- a reasonable approach to partnership working with other organisations.

47. CHS has best value arrangements in place. However, as noted in paragraphs 39 to 43, there is room for improvement to ensure the principles of best value are adhered to in all aspects of decision making.

CHS is working effectively with partners to meet stated outcomes and improvement objectives

48. Our outcomes for public audit note that tackling complex social and environmental challenges requires better collaboration across public bodies, with an increase in the pace and scale of reform needed across the Scottish public sector. While public bodies need to deal with immediate financial pressures, they also need to change how services are delivered to people in a way that more effectively meets their needs.

49. CHS and the Scottish Children's Reporter Administration (SCRA) are committed to working in partnership to combine their resources and expertise. We have seen this first hand when conducting our annual audit. We note that CHS has now appointed finance personnel to strengthen its own function. Management should continue to ensure that roles and responsibilities of finance teams in both organisations are clearly defined to meet the growing requirements of CHS activities.

Good practice

50. Over the course of our audit engagement, the finance team have worked effectively with us to implement improvements to their financial statements.

Appendix 1. Action plan 2023/24

2023/24 recommendations

| Issue/risk | Recommendation | Agreed management action/timing |
|---|---|--|
| <p>1. Related Parties disclosure</p> <p>It was identified that updated registers of interest hadn't been completed by all senior management and Board Members in advance of the draft accounts being produced.</p> <p>Risk – That related parties are not identified and adequately disclosed within the financial statements.</p> | <p>As part of the final accounts' preparation process, management and Board members should complete registers of interest. These registers should be reviewed and should inform the disclosure in the Related Parties note in the accounts to ensure it is accurate.</p> <p>Paragraph 20</p> | <p>Accepted</p> <p>All Senior Leadership Team members and Board members will be invited in March 2025 to complete registers of interest by 31 May 2025</p> <p>Responsible officer: Corporate Governance Manager</p> <p>Agreed date: 31 May 2025</p> |
| <p>2. Remuneration Report issues</p> <p>Changes to the remuneration report were required so that the report met the disclosure requirements of the Government Financial Reporting Manual. One such issue was the disclosure of the real increase in Cash Equivalent Transfer Value, which required adjustment to be in line with requirements.</p> <p>Risk – the Remuneration Report does not comply with FReM requirements.</p> | <p>As part of the final accounts' preparation process, a comparison should be made against the Remuneration Report requirements to ensure it is presented in the required format.</p> <p>Going forward, more comprehensive information should be requested from the actuary, including any assumptions and the methodology applied.</p> <p>Paragraph 20</p> | <p>Accepted</p> <p>The Shared Services Finance Manager will work with Lothian Pension Fund and the actuary to ensure 2024/25 information meets FReM requirements.</p> <p>Responsible officer: Shared Services Finance Manager</p> <p>Agreed date: 31 May 2025</p> |

| Issue/risk | Recommendation | Agreed management action/timing |
|--|---|--|
| <p>3. Business continuity plan testing</p> <p>CHS have sufficient procedures in place to address IT risks. However, one area for improvement was identified and communicated to management. This related to plans to introduce testing of the business continuity plan.</p> <p>Risk – Business continuity arrangements are not fit for purpose.</p> | <p>CHS should introduce a testing schedule of their Business Continuity plan and Digital Disaster Recovery plan.</p> <p>Paragraph 29</p> | <p>Accepted</p> <p>This will be progressed in 24/25 with a proposal for testing and review submitted to the May Audit and Risk Committee meeting.</p> <p>Responsible officer: Corporate Governance Manager</p> <p>Agreed date: 31 May 2025</p> |
| <p>4. Asset Register reconciliation</p> <p>As part of our work on non-current assets we identified that management are aware of differences between the fixed asset register used for preparation of the financial statements and the operational asset tracker spreadsheet which have not been reconciled.</p> <p>Risk – Fixed assets as reported in the accounts are misstated.</p> | <p>Finance and IT teams should work together to ensure the accounts reflect an accurate position, taking into account additions and disposals of assets. As part of the account's preparation in 2024/25, work should be undertaken to ensure the asset tracker reconciles to the fixed asset register.</p> <p>Paragraph 31</p> | <p>Accepted</p> <p>The Finance and IT teams will reconcile the fixed asset register and operational asset tracker as at 31 March 2025.</p> <p>Responsible officer: Digital Strategy and Delivery Manager</p> <p>Agreed date: 30 April 2025</p> |
| <p>5. Funding gap</p> <p>CHS face significant cost pressures as a result of legislative and organisational change. A budget gap of £5m is forecasted for 2024/25.</p> | <p>CHS should continue to work with the Scottish Government to identify ways to address the funding gap.</p> <p>Paragraph 34</p> | <p>Accepted</p> <p>Monthly meetings with Sponsor Team and quarterly Accountability meetings will continue in order to address the 2024/25 pressure and, as last year, the National Convenor/CEO and Board Chair of CHS will meet with Director of Children and Families/Deputy Director Children's Rights, Protection</p> |

| Issue/risk | Recommendation | Agreed management action/timing |
|---|--|---|
| | | <p>and Justice in advance of 2025/26 to secure sufficient assurances that CHS's 25/26 resource needs will be met.</p> <p>Responsible officer: National Convenor/CEO</p> <p>Agreed date: 31 March 2025</p> |
| <p>6. Governance arrangements</p> <p>CHS does not have a policy in place for national events, including the provision of food, beverages and accommodation.</p> <p>Additionally, there is no formal guidance setting out in which circumstances aspects of a policy can be waived.</p> | <p>There should be a clear policy setting out key considerations when planning an event, including guidelines for spend on areas such as food, beverages, and overnight accommodation.</p> <p>There should be clear guidance on when a policy may be waived.</p> <p>Paragraph 41</p> | <p>Accepted</p> <p>An events policy will be brought to the Board before 31 March 2025, and guidance will be issued to staff on when policies may be waived.</p> <p>Responsible officer: Corporate Governance Manager</p> <p>Agreed date: 31 March 2025</p> |

Follow-up of prior year recommendations

| Issue/risk | Recommendation and Agreed Action | Progress |
|---|--|---|
| <p>PY 1. Performance report compliance with FReM</p> <p>2022/23 AAR</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 CHS' accounts do not comply with the FReM.</p> | <p>CHS 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>Work in progress</p> <p>The CHS Performance and Quality Managerial post is currently vacant, so there was no formal review of the performance report to ensure FReM compliance, as recommended in 2022/23. It is hoped that this will be possible next year, once the post is filled.</p> <p>Responsible officer: Corporate Governance Manager</p> <p>Revised date: 30 April 2025</p> |

Children's Hearings Scotland

2023/24 Annual Audit Report

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www.audit-scotland.gov.uk/accessibility



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