

Scottish Children's Reporter Administration

2023/24 Annual Audit Report



 AUDIT SCOTLAND

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

August 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 the Scottish Children's Reporter Administration (SCRA) annual report and accounts were included in our annual audit plan and presented to the Audit and Risk Committee on 28th February 2024. There are no significant matters from that work 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 There are effective and appropriate arrangements in place to continue to deliver services.
- 5 SCRA operated within its revised Departmental Expenditure Limits for 2023/24.
- 6 There is a 5-year strategic financial plan. This includes a number of significant financial risks which will require close monitoring and review going forward.
- 7 SCRA has appropriate arrangements in place to secure Best Value.

Introduction

1. This report summarises the findings from the 2023/24 annual audit of Scottish Children's Reporter Administration (also referred to as SCRA). The scope of the audit was set out in an Annual Audit Plan presented to the 28th of February 2024 meeting of the Audit and Risk Committee. This Annual Audit Report comprises:

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

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

3. 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 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. 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 (ISAs)

7. 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.

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

Auditor Independence

9. 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 £47,530 as set out in my 2023/24 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

10. The annual audit adds 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 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.

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 financial statements in respect of the valuation of the pension asset and the right of use assets (leases) 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

11. The board anticipates approving the annual report and accounts for SCRA for the year ended 31 March 2024 on 18th 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 part of the Remuneration and Staff Report was 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 £640,000

12. 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.

13. 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](#).

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£640,000
Performance materiality	£480,000
Reporting threshold	£32,000

14. 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.

15. 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 the results of our planning work.

16. 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

17. Under ISA (UK) 260, we communicate significant findings from the audit to those charged with governance, including my view about the qualitative aspects of the body's accounting practices.

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

19. 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>In 2022-23, a £nil value was disclosed for the pension asset/liability. No adjustment was made to this disclosure due to the non-material amounts concerned.</p> <p>The 2023-24 unaudited annual report and accounts presented for audit showed a £nil value for the pension asset/liability, consistent with the accounting treatment in 2022-23.</p> <p>The IAS 19 pension actuarial valuation reported a pension asset of £15.7m as at 31 March 2024.</p> <p>The pension accounting standard (IAS 19) limits any pension asset to the lower of the surplus and what is described as an asset ceiling. Further guidance on calculating the asset ceiling is provided in International Financial Reporting Interpretations Committee Interpretation 14 (IFRIC 14).</p> <p>On review of the actuarial asset ceiling calculation obtained by SCRA from the actuary, we identified that this restricted the value of the pension asset to £7.0m. The value of the pension asset was therefore understated by the asset ceiling less its unfunded pension liabilities of £2.7m.</p>	<p>SCRA has amended the financial statements, recognising the pension asset of £4.3m as at 31 March 2024.</p> <p>We are content with this treatment.</p>
<p>2. IFRS 16 Right of Use Asset Valuation</p> <p>SCRA initially chose to complete a full revaluation exercise on the complete Right of Use Asset</p>	<p>SCRA applied the cost model approach to determine the current value of the</p>

Issue	Resolution
<p>(RoUA) lease portfolio, which constitutes 12 leased properties.</p> <p>To determine the revaluation amounts, SCRA had completed in-house calculations using the market rates supplied by the valuer. We concluded that this did not constitute a formal valuation, as the valuer did not provide their own values to SCRA.</p> <p>The finance team assessed that the net effect (cost less depreciation) of applying the revaluation method, as opposed to the cost model, was estimated to be £0.079m.</p> <p>The IFRS 16 application guidance stipulates that the cost model is an appropriate proxy for current value where there is not a material difference between the valuation produced by the cost model or the valuation produced by the revaluation model.</p>	<p>RoUA lease portfolio and amended the financial statements accordingly.</p> <p>We are content with the amended treatment.</p>

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

20. 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 my 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 International Standard on Auditing (UK) 240, management is in a unique position to perpetrate</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</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
<p>fraud override controls that otherwise appear to be operating effectively.</p>	<p>journals of higher risk from which to sample test.</p> <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>	

21. 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 estimation 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 liability. The valuation is based on specialist assumptions and estimates and changes can result in material changes to the valuation. We made a significant finding in this area detailed in [Exhibit 2](#) above.
- Risk of material misstatement in respect of estimation and judgement in the valuation of land and buildings and right of use assets (ROUAs):** SCRA held land and buildings with a net book value

(NBV) of £5.3 million and right of use assets with a NBV of £5.7m as at 31 March 2024. There is a large degree of subjectivity in the valuation of land and buildings and right of use assets. Valuations are based on specialist and management assumptions and estimates, and changes in these can result in material changes to valuations. We made a significant finding in this area detailed in [Exhibit 2](#) above.

22. We kept these areas under review throughout the audit. Based on the findings of the audit procedures performed, we have reported significant findings in both areas which is summarised in [Exhibit 2](#). We are content with the resolution agreed with management.

There were no identified misstatements

23. Other than the two corrected adjustments detailed as significant findings in [Exhibit 2](#), we identified no misstatements above the reporting threshold.

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

24. 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.

Progress on prior year recommendation

25. In 2022/23 we recommended that SCRA undertake a formal review of the performance report within the unaudited annual accounts. Management were unable to implement this prior to the submission of the 2023/24 annual report and accounts due to a staff vacancy. The revised response and timescale is 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 revised budget for 2023/24

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

27. SCRA has reported an outturn of £32.73 million against its overall budget for 2023/24 of £33.75 million. The financial performance against its Departmental Expenditure Limits (DEL) is shown in [Exhibit 5](#).

Exhibit 5

Performance against DEL in 2023/24

Performance	Final budget £m	Outturn £m	Over/(under) spend £m
Resource DEL	31.05	30.33	(0.72)
Capital DEL	2.7	2.4	(0.3)
Total DEL	33.75	32.73	(1.02)

Source: SCRA Annual Accounts and Report 2023/24

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

28. In September 2023, the SCRA board approved a revised financial strategy covering the period 2024-2029. The strategy is updated annually or where it is demanded. The most recent updates to the strategy were made to reflect the estimated impact of the Children's Care and Justice Act 2024 (also referred to as 'the Act'). SCRA has assessed that this will lead to a significant increase in referrals, children's hearings and court proofs and appeals. The strategy further outlines areas of its strategic environment including legislative change, operations and workforce.

29. The Financial Plan includes a 2% per annum savings target over the period 2024/25 to 2028/29 delivering around £0.6m of cost savings each year. Although SCRA has demonstrated an ability to achieve savings targets the strategy highlights that it will be a challenge. The strategy also considers different funding scenarios and the impact of different levels of pay awards.

30. SCRA has been allocated a resource and capital budget of £27.218m for 2024/25. The budget leaves a resource pressure currently of £8.532m to be managed in-year.

31. The strategy highlights the financial risks that SCRA face. A risk routinely captured on the Strategic Risk Register is the affordability of a pay offer in line with SG pay policy. Additional financial risks in 2023/24 are focused on securing sufficient in year additional revenue funding and utilising the Act capital funding.

32. An updated strategy is due to be presented to the SCRA board in September 2024.

33. SCRA should continue to 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 Act.

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

Appropriate governance arrangements are in place

35. 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.

36. Members of the audit team routinely 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

37. 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 2023/24 audit, we have undertaken a high-level review of SCRA's Best Value arrangements.

38. 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.

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

Submission for Whole of Government Accounts

40. Whole of Government Accounts ('WGA') is the consolidated financial statements for all components of government in the UK. Public bodies above HM Treasury's prescribed threshold are required to submit returns for the preparation of WGA. Our audit work identified that SCRA did not make the required submission for the 2022/23 annual accounts.

Recommendation 1

SCRA should establish appropriate arrangements to ensure compliance with their Whole of Government Accounts (WGA) responsibilities.

Appendix 1. Action plan 2023/24

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Submission for Whole of Government Accounts (WGA)</p> <p>We identified that SCRA did not make the required submission for the 2022/23 annual accounts.</p> <p>Risk: SCRA does not comply with its responsibilities for submission of information for WGA.</p>	<p>SCRA should establish appropriate arrangements to ensure compliance with their WGA responsibilities.</p> <p>Paragraph 40.</p>	<p>Accepted</p> <p>SCRA's Accountant agreed to make progress towards meeting the submission deadline.</p> <p>Responsible officer: Finance Manager.</p> <p>Date: 13 September 2024</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>2. 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>Original date: 31 May 2024</p>	<p>Work in Progress</p> <p>Progress on this recommendation was limited due to the Planning and Performance Manager post being unexpectedly vacant. That post is currently being advertised and the Finance Manager will work with the appointee in early 2025 to address this issue.</p> <p>Responsible officer: Finance Manager</p>

Issue/risk

Recommendation

**Agreed management
action/timing**

Revised date: 30 April 2025

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www.audit-scotland.gov.uk/accessibility



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