

Scottish Children's Reporter Administration

Annual Audit Plan 2022/23



Prepared for Scottish Children's Reporter Administration

March 2023

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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 audit of Scottish Children's Reporter Administration (SCRA). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual accounts, and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual accounts including the Performance Report, the Statement of Governance and the Remuneration and Staff Report
- consideration of arrangements in relation to the appropriateness of disclosures in the statement of governance and the financial sustainability of SCRA over the medium to longer term.

Audit Appointment

2. We are pleased to be appointed as the external auditor of SCRA for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of your audit team at Appendix 1.

3. In the first year of the audit appointment, we invest significant time gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

Adding value

5. We aim to add value to SCRA through our audit work by being constructive and forward looking, by attending meetings of the Audit and Risk Committee and by recommending and encouraging good practice. In so doing, we will help SCRA promote improved standards of governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and SCRA

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and SCRA. Key responsibilities are summarised below.

Auditor responsibilities

7. 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.

8. 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 wider scope arrangements in place at SCRA. In doing this, we aim to support improvement and accountability.

SCRA responsibilities

9. SCRA is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

10. SCRA has 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 deliver their objectives.

Communication of fraud or suspected fraud

11. In line with auditing standards, in presenting this plan to the Audit and Risk Committee, we seek confirmation from those charged with governance of any instances of actual, suspected, or alleged fraud that should be brought to our attention. Should members of the committee have any such knowledge or concerns relating to the risk of fraud within SCRA, we invite them to communicate this to the appointed auditor for consideration.

Financial statements audit planning

Introduction

12. The annual accounts are an essential part of demonstrating SCRA stewardship of resources and its performance in the use of those resources.

13. We focus our work on the areas of highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

14. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to obtain reasonable assurance that the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2022/23 audit

15. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for SCRA are set out in [Exhibit 1](#).

Exhibit 1

2022/23 Materiality levels for SCRA

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of SCRA operations. For the year ended 31 March 2023 we have set our materiality at 2% based on the audited financial statements for 2021/22.	£670,000
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 75% of planning materiality.	£500,000

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. £35,000

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

16. Our risk assessment draws on our cumulative knowledge of SCRA, its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

17. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

18. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2022/23 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<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</p>	<p>Owing to the nature of this risk, assurances from management are not applicable</p>	<ul style="list-style-type: none"> • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Test journal entries and other adjustments during the period. • Evaluate significant transactions outside the normal course of business. • Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements.

Significant risk of material misstatement	Sources of assurance	Planned audit response
because of management's ability to override controls that otherwise appear to be operating effectively.		<ul style="list-style-type: none"> • Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments.

Source: Audit Scotland

19. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

We have rebutted this risk as funding received from the Scottish Government through grant-in-aid is clearly communicated and can be readily agreed to third party confirmations. In addition, the SCRA other income amount is immaterial (£466k in 2021/22) and we have concluded there is limited opportunity or incentive to manipulate the recognition of income in the financial statements.

20. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition.

We have rebutted this risk as the main expenditure streams of SCRA can be readily forecast based on a predictable pattern of spend and mainly comprise a high volume of relatively low value items. We also consider there to be limited incentive and opportunity for the manipulation of expenditure recognition in the financial statements.

21. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

22. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses.

23. The areas of specific audit focus are:

- Estimates and judgement in the valuation of the pension liability: SCRA recognised a net liability of £39 million, relating to its share of the Falkirk Pension Fund, as at 31 March 2022. 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 will review the work of the specialist valuer to assess whether we can rely on their professional judgement.
- Estimation and judgement in the valuation of land and buildings: SCRA held land and buildings with a net book value (NBV) of £6 million as at 31 March 2022. 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. We will review the work of the specialist valuer to assess whether we can rely on their professional judgement and/or assess the application of management's judgement to 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. Our work in this area is ongoing. We will report any risks and our audit response in our annual audit report.

Wider Scope and Best Value

Introduction

24. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies. Auditors are required to consider the adequacy of the audited body's arrangements for these areas unless the auditor judges it is not appropriate due to the body's size, nature, and audit risks (I.e. a less complex body).

25. Based on our assessment of SCRA's gross expenditure and assets, the lack of wider scope risks and the lower level of public scrutiny, we have concluded that it is appropriate to apply the less complex body approach to the 2022/23 audit. Consequently, our wider scope audit work will focus on the appropriateness of the disclosures in the statement of governance and the financial sustainability of SCRA and its services.

Wider scope risks

26. Our planned work on our wider scope responsibilities is risk based and proportionate and in addition to local risks we consider challenges which are impacting the public sector as a whole.

27. We have not identified any wider scope risks at present. The wider scope environment will be considered throughout the course of the audit and any findings reported in our Annual Audit Report.

Duty of Best Value

28. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within SCRA.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

29. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 3](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

30. 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.

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

32. [Exhibit 3](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report by our internal deadline of 31 October 2023.

Exhibit 3 2022/23 Audit outputs



Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	31 March 2023	25 May 2023
Annual Audit Report	24 August 2023	24 August 2023
Independent Auditor's Report to be signed following board approval	20 September 2023	20 September 2023 (Board)

Source: Audit Scotland

Timetable

- 33.** To support an efficient audit, it is critical that the timetable for producing the annual accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 4](#) that has been discussed with management.
- 34.** Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.
- 35.** We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 4 Proposed annual accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	2 June 2023
Latest date for final clearance meeting with the Head of Finance and Resources	4 August 2023
Agreement of audited and unsigned annual accounts	17 August 2023
Issue of Annual Audit Report, Letter of Representation and proposed Independent Auditor's Report to those charged with governance.	17 August 2023
Presentation of our Annual Audit Report to the Audit and Risk Committee	24 August 2023
Approval of the SCRA annual accounts by the Board; Independent Auditor's Report signed	20 September 2023

Source: Audit Scotland

Audit fee

- 36.** In determining the audit fee, we have taken account of the risk exposure of SCRA and the planned management assurances in place. The audit fee for 2022/23 is £44,830 (2021/22 £34,330).

37. Our fees have increased in 2022/23 and this is a reflection of the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

38. In setting the fee for 2022/23 we have assumed that SCRA has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

39. It is the responsibility of SCRA to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

40. While we are not planning to use the work of internal audit in 2022/23 for our financial statements audit, we will review internal audit reports and assess the impact of the findings on our wider scope audit responsibilities.

Independence and objectivity

41. Auditors appointed by the Auditor General for Scotland or Accounts Commission 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.

42. 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 Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

43. The appointed auditor for SCRA is Asif A Haseeb OBE. Auditing and ethical standards require the appointed auditor 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.

Audit Quality

44. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value and can support public bodies to achieve their objectives.

45. Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

46. ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

47. Audit Scotland is committed to delivering high quality audits. 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 supplementary 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 England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

48. 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.

Appendix 1. Your audit team

49. The audit team involved in the audit of SCRA have significant experience in public sector audit.

Asif A Haseeb OBE
Engagement Lead

ahaseeb@audit-scotland.gov.uk

Asif joined Audit Scotland in October 2001. Prior to this he was Chief Auditor in a Scottish council. Asif has over 29 years of public sector audit experience. He also has substantial financial management and board level experience in the public sector, gained through Non-Executive membership of various boards. He is currently a member of the Court of Glasgow Caledonian University as well as being a Justice of the Peace (Lay Magistrate).

Laura Nelson
Senior Auditor

lnelson@audit-scotland.gov.uk

Laura has 15 years of public sector audit experience. Laura will manage the team and work alongside the Senior Audit Manager and rest of the team to deliver the audit.

Sean Cowan
Trainee Auditor

scowan@audit-scotland.gov.uk

Sean joined Audit Scotland in 2019 and is currently working on his ICAS qualification. Sean has experience of working on local authority, NHS and central government audits.

50. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

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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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