

# Children's Hearings Scotland

2016/17 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Children's Hearings Scotland and the Auditor General for Scotland

25 September 2017

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Key messages

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## Audit of the 2016/17 financial statements

- 1** The financial statements of Children's Hearings Scotland (CHS) give a true and fair view of the financial position and their expenditure and income.
- 2** We have issued an unqualified independent auditor's report on the CHS annual report and accounts for 2016/17.
- 3** The financial statements and notes were provided in line with the agreed timetable, however the performance and accountability reports were not.

## Financial performance and sustainability

- 4** CHS effectively managed its 2016/17 budget.
- 5** In recent years the balance on CHS's general fund has varied significantly.
- 6** The current budget process includes short to medium term financial planning.

## Governance and transparency

- 7** Risk management arrangements are appropriate.
- 8** Internal audit operates in accordance with the Public Sector Internal Audit Standards.
- 9** CHS is open and transparent although it should consider enhancing transparency by publishing papers submitted to standing committees.

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# Introduction

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1. This report is a summary of our findings arising from the 2016/17 audit of Children's Hearings Scotland (CHS).
2. The scope of our audit was set out in our annual audit plan presented to the February 2017 meeting of the audit and risk management committee. This report comprises:
  - an audit of the annual report and accounts.
  - consideration of the appropriateness of the disclosures in the governance statement, and the financial sustainability of CHS and the services it delivers over the medium to longer term, as set out in the [Code of Audit Practice 2016](#) where the full application of the wider scope is not considered appropriate or proportionate.
3. The main element of our audit work in 2016/17 has been an audit of CHS's 2016/17 annual report and accounts including the issue of an independent auditor's report setting out our opinions.
4. CHS is responsible for preparing financial statements that give a true and fair view, for the accuracy of the other information in the annual report and accounts, and for establishing effective arrangements for governance, propriety and regularity that enable the board to successfully deliver its objectives.
5. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#), supplementary guidance, and guided by the auditing profession's ethical guidance.
6. These responsibilities include giving independent opinions on the financial statements, regularity, the remuneration and staff report, the performance report and the governance statement. We also review and report on the arrangements within CHS to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.
7. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.
8. The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work, and may not be all that exist. Also, our annual audit report contains an action plan at [Appendix 1 \(page 15\)](#). It sets out specific recommendations, responsible officers and dates for implementation.
9. Communication in this report of matters arising from the audit of the annual report and accounts or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
10. As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee for the audit was set out in our annual

audit plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

- 11.** This report is addressed to both the board and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
- 12.** We would like to thank all management and staff who have been involved in our work for their cooperation and assistance during the audit.

# Part 1

## Audit of 2016/17 financial statements



### Main judgements

The financial statements of CHS for 2016/17 give a true and fair view of the state of its affairs and of its net expenditure for the year.

We have issued an unqualified independent auditor's report on the CHS annual report and accounts for 2016/17

The financial statements and notes were provided in line with the agreed timetable, however the performance and accountability reports were not.

### Unqualified audit opinions

13. The annual report and accounts for the year ended 31 March 2017 were approved by the board on 25 September 2017. We reported, within our independent auditor's report:
- an unqualified opinion on the financial statements;
  - an unqualified opinion on the regularity of expenditure and income; and
  - an unqualified audit opinion on the remuneration and staff report, performance report and governance statement.
14. Additionally, we are satisfied that there are no matters which we are required by the Auditor General to report by exception.

The annual report and accounts are the principal means of accounting for the stewardship of resources and performance in the use of those resources.

### Submission of annual report and accounts for audit

15. The first part of the annual report and accounts, the financial statements and notes, was received on 29 May 2017, in line with the agreed timetable. The second part, comprising the performance report and the accountability report, was received on 26 July 2017. This was due to the longer timeline required by CHS to prepare the performance report.
16. For the remainder of the audit engagement we expect that a complete and fully compliant annual report and accounts will be submitted for audit in accordance with the agreed timescale. After completion of the audit, we would welcome a discussion with management on how we can improve the process in future years.

### Action Plan (Appendix 1, point 1)

17. The working papers provided with the unaudited financial statements were of a good standard and finance staff provided support to the audit team which helped ensure the final accounts audit process ran smoothly.

## Risk of material misstatement

18. No risks of material misstatement were identified during the planning process.

## Materiality

19. Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.
20. Our initial assessment of materiality for the annual report and accounts was undertaken during the planning phase of the audit. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
21. On receipt of the annual report and accounts we reviewed our original materiality calculations as summarised in [Exhibit 1](#). These levels are broadly consistent with those calculated at the planning stage.

## Exhibit 1

### Materiality values

Materiality level	Amount
<b>Overall materiality</b> – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.	£35 thousand
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 75% of overall materiality.	£26 thousand
<b>Reporting threshold</b> – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 5% of overall materiality.	£ 1 thousand

Source: Audit Scotland

## Evaluation of misstatements

22. There were no material adjustments to the unaudited financial statements arising from our audit.
23. It is our responsibility to request that all misstatements are corrected although the final decision on this lies with those charged with governance taking into account advice from senior officers and materiality levels. Management adjusted for all immaterial errors identified during the audit.

## Significant findings from the audit

24. International Standard on Auditing (UK and Ireland) 260 requires us to communicate significant findings from the audit to you. These are summarised in [Exhibit 2](#). Where a finding has resulted in a recommendation to

management, a cross reference to the Action Plan in [Appendix 1 \(page 15\)](#) has been included.

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## Exhibit 2

### Significant findings from the audit of financial statements

Issue	Resolution
<p><b>1. Remuneration report</b></p> <p>The Financial Reporting Manual (FReM) advises that the remuneration report should include ‘the management board (including advisory and non executive members) having authority or responsibility for directing or controlling the activities of the body during the year’. The remuneration report in the unaudited accounts did not include the Head of Finance &amp; Resources or the Head of Human Resources, both of whom meet the criteria set out in the FReM.</p>	<p>Officers have now revised the remuneration report to meet FReM requirements</p>
<p><b>2. Receipt of unaudited accounts</b></p> <p>The first part of the annual report and accounts, the financial statements and notes, was received on 29 May 2017, in line with the agreed timetable. The second part, comprising the performance report and the accountability report, was not received until 26 July 2017. This was due to the longer timeline required by CHS to prepare the performance report.</p>	<p>CHS plan to submit an annual report and accounts in accordance with the agreed timetable in future years.</p> <p><a href="#">Action Plan (Appendix 1, point 1)</a></p>

Source: Audit Scotland

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### Other findings

- 25.** In addition to the issues set out above and in accordance with normal audit practice, a number of presentational and disclosure amendments were discussed and agreed with management.

# Part 2

## Financial management and sustainability



### Main judgements

**CHS effectively managed its 2016/17 budget**

**In recent years the balance on CHS's general fund has varied significantly**

**The current budget process includes short to medium term financial planning.**

### Financial performance in 2016/17

26. CHS's financial performance for the year to 31 March 2017 is summarised in [Exhibit 3](#) below.

### Exhibit 3

#### Financial targets summary 2016/17

	Outturn £m	Budget allocation £m	Overspend/ (underspend) £m
<b>Resource Departmental Expenditure Limit</b>	<b>3.536</b>	<b>3.880</b>	<b>(0.344)</b>

Source: Scottish Government CHS Budget Allocation Letter 2016/17 and CHS 2016/17 financial statements

27. In March 2016, the board approved a planned overspend of £23,000 as part of its 2016/17 budget. The outturn position of a £344,000 surplus was achieved largely through capitalising IT development spend of £307,000.

28. Key movements in expenditure and income compared with 2015-16 are:

- Staff costs have increased by £69,000 from £887,000 to £956,000. The full time equivalent total employees increased from 19 throughout 2015-16 to 21 in 2016-17. In addition, and in line with Scottish Government pay policy, a pay award of 1% was implemented
- Other administration costs have decreased by £0.4 million from £2.9 million to £2.5 million as a result of a reduction in running costs, shared services and training of panel and area support team (AST) members. The reduction in running costs is due mainly to the capitalisation of IT development spend mentioned above
- Grant funding (i.e. the net cash figure required to support agreed budgets) increased by £0.2 million to £3.9 million.

## 2016/17 financial position

29. The Statement of Financial Position summarises what is owned and owed by CHS. This shows taxpayers' equity – an accounting measurement of the amount invested that has continuing public benefit. It shows how much of this has arisen from the application of revenues and that which has resulted through changes over time in the value of physical assets.
30. [Exhibit 4](#) shows that in recent years the balance on CHS's general fund has varied significantly, falling from £161,000 in 2014/15 to £41,000 in 2015/16 and rising to £385,000 in 2016/17 as a result of the £344,000 underspend.

### Exhibit 4

#### Movement in the general fund

	2016/7 £000	2015/16 £000	2014/15 £000
General fund	385	41	161

Source: CHS financial statements

31. Other key movements compared with 2015-16 are:

- an increase in non-current assets of £289,000 due to the capitalisation of IT development spend
- the pension scheme is in a deficit position with liabilities exceeding assets by £252,000 (2015-16 £23,000 surplus). Key pension assumptions used by the actuary are summarised in [Exhibit 5](#) below.

### Exhibit 5

#### Key pension assumptions

	Pension assumption	
	2016/17	2015/16
Pension increase rate	2.4%	2.2%
Salary increase rate	3.0%	3.0%
Discount rate	2.7%	3.6%
Net pension (liability)/asset	(£252,000)	£23,000

Source: Hymans Robertson 'Actuarial Valuation as at 31 March 2017 for Accounting Purposes'

- 32.** The pension assumptions used are consistent with our knowledge of the organisation. In our view, the combined effect of the assumptions is reasonable as a whole and leads to the best estimate of the future cash flows that will arise under the scheme liabilities.

### Financial planning

- 33.** In autumn 2016 the board reviewed the spending review 2016 submission which confirmed CHS's revenue requirement for 2017/18 of £4.2 million. In March 2017, the board approved its 2017/18 budget based on a revenue resource allocation of £3.7 million. Despite not receiving additional funding of £0.5m the board approved a balanced budget largely as a result of scaling back workforce planning changes, further capitalising IT development spend and the acceleration of planned 2017/18 spend using general fund balances.

### Medium to long term financial planning

- 34.** CHS is funded entirely through grant-in-aid and this is set on a year-on-year basis by the Scottish Government. However, this does not preclude CHS from preparing medium to long term financial plans based on sensitivity analysis and scenario planning for possible budget changes.
- 35.** Internal audit reviewed the financial sustainability of CHS during 2016/17 as part of its review of treasury & cash management and financial sustainability. The report concluded that controls around financial sustainability were generally operating effectively, and that there are appropriate planning, modelling and forecasting mechanisms in place which consider the allocation of resources and development of budgets over the short and medium term.

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Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

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# Part 3

## Governance and transparency



### Main judgements

**The annual governance statement for 2016/17 presents a comprehensive picture of governance arrangements and matters**

**Internal audit operates in accordance with the Public Sector Internal Audit Standards.**

**CHS is open and transparent although it should consider enhancing transparency by publishing papers submitted to standing committees**

### The Annual Governance Statement

36. Under the Treasury's Financial Reporting Manual (FRM), CHS must prepare an annual governance statement within the annual report and accounts. Guidance is set out within the Scottish Public Finance Manual (SPFM) for the content of the statement and provides assurances around the achievement of the organisation's strategic objectives.
37. The SPFM does not prescribe a format for the annual governance statement, but sets out minimum requirements for central government bodies. The process undertaken by management included conducting an assurance mapping exercise and working to an assurance plan that assessed the evidence underpinning the preparation of the governance statement.
38. We concluded that the annual governance statement 2016/17 complies with the guidance issued by the Scottish Ministers and based on our knowledge and work performed presents a comprehensive picture of governance arrangements and matters.

### Risk Management

39. CHS's risk management policy was approved by the board in September 2016. The board has responsibility for the system of internal control and risk management within CHS. The board charges the audit and risk management committee with overseeing the operation of the system of internal control and with ensuring robust risk management arrangements within CHS, including;
  - the format of strategic and operational risk registers are based on the standard, internationally recognised, format which is prescribed for all risk registers across Scottish Government. Risk management is a standing item on the senior management team agenda and the strategic risk register is reviewed formally each quarter
  - the strategic and operational risk register is produced to highlight the progress against risks that have been identified and this allows the board, audit and risk management committee and senior management team to assess the risk management processes that are in place. These risks are

then managed with appropriate measures put in place to address each risk. An update is then provided to show the progress against mitigating the risk or removing it altogether.

40. Overall, we have assessed that the risk management processes in place are appropriate.

### Internal audit

41. Internal audit provides CHS and the Accountable Officer with independent assurance on CHS's overall risk management, internal control and corporate governance processes.
42. The internal audit function for the 2016/17 financial year was carried out by Scott-Moncrieff. We carried out a review of the adequacy of the internal audit function and concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

### Transparency

43. Transparency means that the public have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources.
44. There is evidence from a number of sources which demonstrate the board's commitment to transparency. For example the agenda papers and minutes of board meetings are publically available on CHS's website.
45. CHS has two standing committees, with the audit and risk management Committee being the most significant of these. While minutes of the committees are included in board papers available on the website, committee papers are not. The board should consider enhancing transparency by publishing papers submitted to standing committees. Where papers include confidential information these can be withdrawn or redacted as appropriate.
46. A wide range of information on how the board operates is available on its website. Information available includes corporate policies and registers of interest relating to board members.
47. Overall we concluded that CHS is open and transparent although we consider that it should consider enhancing transparency by publishing papers submitted to standing committees.

# Appendix 1

## Action plan 2016/17

### 2016/17 recommendations for improvement



Page  
no.

Issue/risk

Recommendation

Agreed management  
action/timing

9

**1. Receipt of unaudited accounts**

A full set of accounts, including performance and governance reports, was not provided until 26 July 2017. This was due to the longer timeline required by CHS to prepare the performance report.

**Risk**

Delays in providing the unaudited accounts and working papers can result in additional audit work, and may result in additional fees being charged by the auditor.

Management should ensure that a complete set of unaudited accounts and associated working papers are presented in line with the agreed timetable in future years.

Management will agree the timetable for 2017/18 reports and accounts ahead of the interim audit visit in February 2018.

**Deputy Chief Executive**  
**February 2018**

# Appendix 2

## Summary of national performance reports 2016/17



Apr			
May		Common Agricultural Policy Futures programme: an update	
Jun		South Ayrshire Council: Best Value audit report	The National Fraud Initiative in Scotland
Jul		Audit of higher education in Scottish universities	Supporting Scotland's economic growth
Aug		Maintaining Scotland's roads: a follow-up report	Superfast broadband for Scotland: a progress update
			Scotland's colleges 2016
Sept		Social work in Scotland	Scotland's new financial powers
Oct		Angus Council: Best Value audit report	NHS in Scotland 2016
Nov		How councils work – Roles and working relationships in councils	Local government in Scotland: Financial overview 2015/16
Dec		Falkirk Council: Best Value audit report	East Dunbartonshire Council: Best Value audit report
Jan			
Feb		Scotland's NHS workforce	
Mar		Local government in Scotland: Performance and challenges 2017	i6: a review
			Managing new financial powers: an update

### Central Government relevant reports

[Common Agricultural Policy Futures programme: an update](#) – May 2016

[The National Fraud Initiative in Scotland](#) – June 2016

[Audit of higher education in Scottish universities](#) – July 2016

[Supporting Scotland's economic growth](#) – July 2016

[Maintaining Scotland's roads: a follow-up report](#) – August 2016

[Superfast broadband for Scotland: a progress update](#) – August 2016

[Scotland's colleges 2016](#) – August 2016

[Social work in Scotland](#) – September 2016

[Scotland's new financial powers](#) – September 2016

[i6: a review](#) – March 2017

[Managing new financial powers: an update](#) – March 2017

# Children's Hearings Scotland

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