

Scottish Children's Reporter Administration

2016/17 Annual Audit Report



 AUDIT SCOTLAND

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

28 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

Audit of the 2016/17 financial statements

- 1 The financial statements of the Scottish Children's Reporter Administration (SCRA) give a true and fair view of the financial position and their expenditure and income.
- 2 The working papers provided with the unaudited financial statements were of a good standard.

Financial management

- 3 SCRA maintained strong control over its financial performance in 2016/17.
- 4 Systems of internal control operated effectively in 2016/17.
- 5 There was positive engagement in the NFI exercise.

Financial sustainability

- 6 The balance on SCRA's general fund has reduced significantly in recent years and now stands at a negative position of £0.4 million in 2016/17.
- 7 SCRA has a relatively high net liabilities position, due to the pension liability.
- 8 The 2.5% savings target required for 2017/18 will mean that current performance will be difficult to maintain potentially resulting in increased delay, increased risk and reduced service quality.

Governance and transparency

- 9 SCRA has appropriate governance arrangements in place that provide a framework for effective organisational decision making.
- 10 SCRA is open and transparent although it should consider enhancing transparency by publishing papers submitted to standing committees.
- 11 Internal audit operates in accordance with the Public Sector Internal Audit Standards (PSIAS).

Value for money

- 12 We concluded that SCRA has an effective performance management framework in place which supports the achievement of value for money and continuous improvement in the way services are delivered.

Introduction

1. This report is a summary of our findings arising from the 2016/17 audit of the Scottish Children's Reporter Administration (SCRA).
2. The scope of our audit was set out in our Annual Audit Plan presented to the February 2017 meeting of the Audit & Risk Committee. This report comprises:
 - an audit of the annual report and accounts
 - consideration of the wider dimensions set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2016/17 have been:
 - an interim audit of SCRA's main financial systems and governance arrangements
 - an audit of the SCRA 2016/17 annual report and accounts including the issue of an independent auditor's report setting out our opinions.
4. SCRA 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 SCRA 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 20). 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 and 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.
- 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 SCRA for 2016/17 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.

The working papers provided with the unaudited financial statements were of a good standard .

Unqualified audit opinions

13. The annual report and accounts for the year ended 31 March 2017 were approved by the board on 17 August 2017. We reported, within our independent auditor's report:
- an unqualified opinion on the financial statements;
 - an unqualified opinion on 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 its resources and its performance in the use of those resources.

Submission of annual report and accounts for audit

15. We received the unaudited financial statements on 5 June 2017, in line with our agreed audit timetable however the cash flow statement had not been internally reviewed and was still being worked on.
16. 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

17. [Appendix 2 \(page 22\)](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team.

Materiality

18. 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.

19. 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.
20. On receipt of the annual report and accounts we reviewed our original materiality calculations as summarised in [Exhibit 2](#). These levels are broadly consistent with those calculated at the planning stage.

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality – 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.	£250 thousand
Performance materiality – 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.	£188 thousand
Reporting threshold – 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.	£12 thousand

Source: Audit Scotland

Evaluation of misstatements

21. A number of adjustments were made to the unaudited financial statements following our audit. The result of applying the indexation rate of zero was to create an upwards revaluation of buildings and after further review it was agreed that this was not the intended effect. In addition, the impairment of land at Belhaven was incorrectly omitted from the unaudited figures. As a result, the fixed asset line was adjusted by £48,000.
22. 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

23. International Standard on Auditing (UK and Ireland) 260 requires us to communicate significant findings from the audit to you. These are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1 \(page 20\)](#) has been included.

Exhibit 3

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Indexation</p> <p>Management proposed an indexation rate of zero for buildings which was agreed with us. However the result of applying this rate was to create an upwards revaluation of buildings and after further review it was agreed that this was not the intended effect.</p>	<p>Officers have now revised the accounts to reflect the agreed indexation rate.</p>
<p>2. Valuation of fixed assets</p> <p>An adjustment of £37,500 to the valuation of land at Belhaven was not processed in the asset register or the unaudited accounts due to an administrative error.</p>	<p>Officers have now revised the accounts to correct the error.</p>
<p>3. Monitoring of non-current assets</p> <p>SCRA do not tag all assets. As a result, it is not possible to identify individual assets on the asset register. This increases the risk of fraud remaining undetected, and of the asset register being inaccurate as individual items cannot be identified for impairment or disposal.</p>	<p>Officers have confirmed that high value / high risk items such as computer equipment are tagged and managed by the IT department. While these asset tags cannot be reconciled to the asset register, this does ensure that fraud or theft can be detected. Officers do not consider it cost effective to tag lower value items and will continue to monitor these assets by location.</p> <p>Action Plan (Appendix 1, point 1)</p>
<p>4. West Lothian Civic Centre Lease</p> <p>The lease agreement for West Lothian Civic Centre has not been signed. This has been an ongoing issue for the Scottish Children's Reporter Administration for a number of years. Without a formal lease agreement there is a risk that either party could terminate the agreement leading to operational instability and potential service disruption.</p>	<p>SCRA are actively pursuing the signing of the lease with West Lothian Council with a view to having a lease signed as soon as possible.</p> <p>Action Plan (Appendix 1, point 2)</p>

Source: Audit Scotland

Other findings

- 24.** Our audit identified a number of presentational and disclosure issues which were discussed with management. These were adjusted and are reflected in the audited financial statements.

Part 2

Financial management



Main judgements

SCRA maintained strong control over its financial performance in 2016/17

Systems of internal control operated effectively in 2016/17

There was positive engagement with the NFI exercise

Financial performance in 2016/17

25. SCRA's financial performance for the year to 31 March 2017 is summarised in Exhibit 4 below.

Exhibit 4

Financial Performance in 2016/17

Performance	Initial budget £m	Final budget £m	Actual outturn £m	Overspend/ (underspend) £m
Capital resource	1.137	1.192	1.089	(0.103)
Operating expenditure (cash)	21.300	21.563	21.411	(0.152)
Depreciation/impair ment (non-cash)	2.500	2.500	2.627	0.127
Total operating resource	23.800	24.063	24.038	(0.025)
Annually Managed Expenditure limit	2.500	2.500	1.778	(0.722)

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

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

- Staff costs which represent 78% of operating expenditure have decreased by £0.1 million from £16.9 million to £16.8 million. The full time equivalent average total employees decreased slightly from 400 to 399 between 2015-16 and 2016-17. In addition, and in line with Scottish Government pay policy, a pay award of 1% was implemented

- Non-cash expenditure of £2.6 million (2015/16: £2.1) million has increased as a result of permanent diminution in the value of fixed assets of £0.6 million
- Annually Managed Expenditure includes IAS 19 adjustments to pension contributions of £0.723 million (2015/16: £1.383 million) and pension scheme finance costs of £1.055 million (2015/16: £1.175 million)
- Grant funding (i.e. the net cash figure required to support agreed budgets) increased by £1.1 million to £22.755 million.

Internal controls

- 27.** As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant for the production of the financial statements. Our objective is to gain assurance that SCRA has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.
- 28.** Our findings were included in an interim audit report presented to the Audit and Risk Committee in May 2017. We concluded that the controls were operating effectively. No significant internal control weaknesses were identified during the audit which could affect SCRA's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Prevention and detection of fraud and irregularity

- 29.** We assessed SCRA's arrangements for the prevention and detection of fraud. Our audit work covered a number of areas such as whistleblowing and review of the policy for fraud prevention, detection and investigation.
- 30.** We concluded that SCRA is proactive in promoting fraud awareness and had appropriate and adequate arrangements in place for fraud detection and prevention during 2016/17.

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

National Fraud Initiative

- 31.** The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or error.

Exhibit 5

Total number of matches



112

Number recommended for investigation



17

Completed/closed investigations



40

32. NFI activity is summarised in [Exhibit 5](#) and highlights that the board has made good progress in investigating those matches issued to it at the end of January 2017 that were recommended for investigation. The NFI matches completed by 31 March 2018 will be the basis for the national NFI report.
33. SCRA are pro-active in reporting NFI activity to the Audit and Risk Committee, with the results of NFI activity reported at least annually.

Standards of conduct and arrangements for the prevention and detection of bribery and corruption

34. We have reviewed the arrangements in place to maintain standards of conduct including the Staff Handbook and Civil Service and Members' Codes of Conduct. There are established procedures for preventing and detecting any breaches of these standards including any instances of corruption.
35. Based on our review of the evidence we concluded that SCRA has appropriate arrangements in place for the prevention and detection of bribery and corruption. We are not aware of any specific issues that we need to bring to your attention.

Part 3

Financial sustainability



Main judgements

The balance on SCRA's general fund has reduced significantly in recent years and now stands at a negative position of £0.4 million in 2016/17

SCRA has a relatively high net liabilities position, due to the pension liability

The 2.5% savings target required for 2017/18 will mean that current performance will be difficult to maintain potentially resulting in increased delay, increased risk and reduced service quality

Financial planning

36. SCRA's published budget plan for 2017/18 has been confirmed as £21.3 million with additional grant-in-aid (GiA)/resource funding of £0.3 million. The Sponsor Team have also confirmed £0.5m revenue and £2.0m capital to support the first year of the joint Digital Strategy.
37. More than 76% of SCRA's budgeted 2017/18 expenditure relates to staff costs and a savings target has been set for 2017/18 at 2.5% of staff costs (2.4% 2016/17). It is expected that most of the savings will arise from holding posts vacant and the vacancy management procedure has been revised to reflect a presumption of a six month delay in filling vacancies (previously three months).
38. Inclusion of the 2.5% savings target, which will largely be met from vacancy management, will mean that current performance will be difficult to maintain in 2017/18 potentially resulting in increased delay, increased risk and reduced service quality.

[Action Plan \(Appendix 1, point 3\)](#)

2016/17 financial position

39. The Statement of Financial Position summarises what is owned and owed by SCRA. 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.
40. The financial statements show that in recent years the balance on SCRA's general fund has reduced significantly falling from £6.4 million in 2014/15 to £2.6 million in 2015/16 and a negative position of £0.4 million in 2016/17.
41. The decrease is largely due to two areas of expenditure: depreciation and amortisation and pension scheme costs. These amounts are not funded through GiA, having a direct impact upon the general fund balance each year.

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.

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

- an increase in liabilities of £18.9 million largely attributable to an increase in the pension liability.
- the pension scheme remains in a deficit position with liabilities exceeding assets by £45.2 million. Key pension assumptions used by the actuary are summarised in Exhibit 6 below.
- cash and cash equivalents has decreased by £73,000, resulting in a debit bank balance of £29,000 at 31 March 2017.

Exhibit 6

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	2.6%	3.5%
Net pension liability	£45.197 million	£28.089 million

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

- 43.** 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.

Medium to long term financial planning

- 44.** SCRA is funded almost entirely through GiA and this is set on a year-on-year basis by the Scottish Government. In September 2016 the Board approved the updated Financial Strategy (2017-2020) and Spending Review 2016 submission. The accompanying report by the Head of Finance and Resources set out that to secure financial sustainability over the medium term: continued in year support from Scottish Government for new and unforeseen pressures will be required; 2% to 3% increases in annual revenue funding; delivery of efficiencies from major programmes; significant investment in ageing infrastructure, and; continued vigilance from budget holders.
- 45.** A new five year Financial Plan is currently being developed which will be informed by a service redesign exercise. A report on the new Financial Plan will be presented to the Board in summer 2017. The Plan will form the basis of a dialogue with the Sponsor Team ahead of the autumn 2017 Scottish Government Spending Review.

Going concern

46. SCRA had net liabilities of £41.714 million as at 31 March 2017 (2015-16: £22.835 million liability). The increase in the net liability position is due to the significant increase in the defined benefit obligation.
47. Senior officers consider it appropriate to adopt a going concern basis for the preparation of the financial statements because core GiA is sufficient to ensure that SCRA is able to meet debts as they fall due. Whilst there is technically some risk in the unconfirmed GiA, required to deliver the 2017-18 expenditure budget, discussions with Scottish Government indicate that this will be forthcoming. These circumstances have been disclosed within the financial statements.
48. Whilst SCRA has a relatively high net liabilities position, due to the pension liability, we do not consider that this impacts upon the ability of SCRA to continue as a going concern given that pension funding is long term in nature.

Part 4

Governance and transparency



Main judgements

SCRA has appropriate governance arrangements in place that provide a framework for effective organisational decision making.

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

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

Governance arrangements

49. Our review of the board's governance and accountability arrangements considered areas that were based on the recommendations in the Auditor General's 2010 report on the "Role of Boards", tailored to include all public sector bodies.
50. As part of this work we reviewed a range of governance documents, minutes and agenda papers. We also attended Audit and Risk Committee meetings during the year and reviewed how it performed.
51. The Board and Principal Reporter are responsible for establishing arrangements for ensuring the proper conduct of affairs of SCRA and for monitoring the adequacy of these arrangements.
52. We are satisfied that:
 - the framework document provides appropriate coverage of the operation of the Board and committees.
 - standing orders are regularly updated.
 - there is evidence of scrutiny and challenge by members.
53. Overall, we concluded that SCRA has appropriate governance arrangements in place that provide a framework for effective organisational decision making.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

The Annual Governance Statement

54. Under the Treasury's Financial Reporting Manual (FReM), SCRA 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.
55. 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.

- 56.** We concluded that the annual governance statement for 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 at SCRA.

Internal audit

- 57.** Internal audit provides SCRA and the Accountable Officer with independent assurance on SCRA's overall risk management, internal control and corporate governance processes.
- 58.** 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.

Risk management

- 59.** SCRA's revised risk management policy was approved by the Board in March 2016. Risk registers are kept under review by the Executive Management Team (EMT) and operational group. A service wide risk reference group has also been established to act as an internal focus for the development of SCRA's approach to risk issues and to provide leadership on the delivery of SCRA's risk management policy.
- 60.** The risk register format includes an assessment of both gross and net risk in order to demonstrate the impact of existing control mechanisms and to link the agreed organisational risk appetite.
- 61.** A strategic and operational risk register is produced to highlight the progress against risks that have been identified and this allows the Board, Audit & Risk Committee and EMT 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.
- 62.** During 2016/17 internal audit performed a high level review of the risk management arrangements in place to manage and monitor risks across all levels of the organisation. The review identified a number of areas of good practice as well as areas for development, particularly in relation to the consistent application of the risk management framework across all localities.

Transparency

- 63.** Transparency means that the public have access to understandable, relevant and timely information about how the organisation is taking decisions and how it is using resources.
- 64.** There is evidence from a number of sources which demonstrate the SCRA's commitment to transparency. For example the agenda papers and minutes of Board meetings are publically available on SCRA's website.
- 65.** SCRA has three sub-committees, with the Audit and Risk 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 available on the website. 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.

- 66.** SCRA does encourage complaints by providing a variety of methods for individuals to make a complaint about its services. Complainants can contact SCRA in person at SCRA offices, via a form available from SCRA offices, and by telephone, email or letter. The number of complaints received is reported to the Board on a quarterly basis, and an annual review of complaints is also taken for discussion. This report includes details of the number and nature of complaints, as well as examples of complaints which have been upheld during the period and actions being taken to reduce recurrence in future.
- 67.** 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.
- 68.** Overall we concluded that SCRA is open and transparent although we believe that it should consider enhancing transparency by publishing papers submitted to standing committees.

Part 5

Value for money



Main judgements

Performance management arrangements are well defined and consistent with the organisational structure

Performance management

- 69.** Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. The Auditor General may require that we consider whether accountable officers have put in place appropriate arrangements to satisfy their corresponding duty of Best Value. Where such requirements are not specified we may, in conjunction with SCRA agree to undertake local work in this area.
- 70.** The performance of SCRA is monitored by the Board against a number of performance targets which support the delivery of the Scottish Government's national performance framework. Performance reports use a balanced scorecard approach which attributes measures within the organisation into four quadrants; services to children and young people, workload, resources and corporate governance. A traffic light system is then used to determine whether targets have been met or exceeded, nearly met or missed. Quarterly performance reports ensure that the Board is kept well informed of performance against each target.
- 71.** Performance management was reviewed by internal audit during the year. Internal audit reported that performance management arrangements are well defined and consistent with the organisational structure, although a small number of areas were highlighted where existing processes could be improved.

Value for money is concerned with using resources effectively and continually improving services.

National performance audit reports

- 72.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, we published a number of reports which are of direct interest to the Board. These are outlined in [Appendix 3](#) accompanying this report.
- 73.** External auditors take an update report to each meeting of the Audit and Risk Committee. This sets out in changes in technical guidance which may be relevant to SCRA, and well as any national reports that have been published since the previous meeting. Where national reports have a direct interest to SCRA, a brief summary is provided outlining the main findings from the report.

Appendix 1

Action plan 2016/17

2016/17 recommendations for improvement



Page
no.

Issue/risk

Recommendation

Agreed management
action/timing

9	<p>1. Monitoring of non-current assets</p> <p>SCRA do not tag all assets in the asset register and it is consequently not possible to identify individual assets on the register.</p> <p>Risk</p> <p>The asset register may be inaccurate as individual items cannot be identified for impairment or disposal. There is also an increased risk of fraud being undetected.</p>	<p>The Board should ensure that all items on the asset register are individually identifiable to minimise the risk of fraud and error.</p>	<p>High value / high risk items such as computer equipment are tagged and managed by the IT department. The corporate asset register will be updated to include the IT asset number against each relevant asset.</p> <p>Responsible officer: Accountant</p> <p>Agreed date: 31 December 2017</p>
9	<p>2. West Lothian Civic Centre Lease</p> <p>The lease agreement for West Lothian Civic Centre has not been signed. This has been an ongoing issue for the Scottish Children's Reporter Administration for a number of years.</p> <p>Risk</p> <p>Without a formal lease agreement there is a risk that either party could terminate the agreement leading to operational instability and potential service disruption.</p>	<p>Management should ensure that the lease agreement is formally signed as soon as possible.</p>	<p>SCRA are actively pursuing the signing of the lease with West Lothian Council with a view to having a lease signed as soon as possible.</p> <p>Responsible officer: Head of Finance & Resources</p> <p>Agreed date: 31 October 2107</p>
13	<p>3. Savings target 2017/18</p> <p>A savings target of 2.5% has been agreed for 2017/18, which will largely be met from vacancy management. This target has been increased from 2.4% in 2016/17 which SCRA found difficult to</p>	<p>The Board should continue to review achievement of cost efficiency savings in 2017/18.</p>	<p>The Board will continue to actively review achievement of cost efficiency savings.</p> <p>Responsible officer: Head of Finance & Resources</p> <p>Agreed date: March 2018</p>



Page
no.

Issue/risk

Recommendation

Agreed management
action/timing

achieve.

Risk

SCRA is unable to achieve the necessary savings and may fail to meet its financial targets for 2017/18

14

4. Financial planning

A new five year Financial Plan is currently being developed which will be presented to the Board in summer 2017. The Board recognise that financial sustainability is predicated on balancing recurring expenditure with recurring income and that continued support from Scottish Government will be required to minimise financial risk to SCRA.

Risk

Funding settlements are inadequate to meet service delivery proposals.

To secure financial stability over the medium term, early and continuing engagement with Sponsor Team is required to influence the next Spending Review.

Engagement with Sponsor Team is ongoing.

Responsible officer: Head of Finance & Resources

Agreed date: March 2018

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit Risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business. 	<ul style="list-style-type: none"> • We carried out detailed testing of trade payable and trade receivable transactions to ensure that they were posted to the correct financial year. • We performed substantive testing on a sample of transactions from each material category of income and expenditure with reference to supporting documentation to confirm that they were accounted for in the correct accounting period. • Our conclusion is that there is no management override of controls at SCRA.
<p>2 Indexation of Valuations</p> <p>In 2015/16, SCRA changed its method for valuing its property portfolio. Previously, property was revalued by means of an annual desktop valuation, with a full valuation carried out every five years. In 2015/16 management decided to replace the annual desktop valuation with indexation for the intervening years between the quinquennial full valuation. This method is allowed in line with the FReM. However, management has not defined within the accounting policies what they consider to be a relevant index and there is no readily available guidance for commercial properties.</p> <p>There is a risk that valuations are materially different from</p>	<p>Management will continue to liaise with Audit Scotland to identify a solution to this situation.</p>	<ul style="list-style-type: none"> • Management proposed an indexation rate of zero for buildings for 2016/17 which was agreed with us.

Audit Risk	Assurance procedure	Results and conclusions
<p>year to year if an appropriate basis upon which the index to be applied is not consistent.</p>		
<p>3 West Lothian Civic Centre Finance Lease</p> <p>During the 2015/16 audit, PwC noted that the finance lease agreement for West Lothian Civic Centre has not yet been signed by SCRA and West Lothian Council. SCRA have occupied the building for 8 years, and account for this as a finance lease. The provisional agreement with West Lothian Council sets out a lease term of 30 years. Without a signed agreement, there is a risk that either party could terminate the agreement leading to operational instability and potential service disruption.</p>	<p>SCRA is liaising closely with West Lothian Council to ensure that the lease is finalised and signed by 31 March 2017.</p>	<ul style="list-style-type: none"> • SCRA are continuing to pursue the signing of the lease with West Lothian Council with a view to having a lease signed as soon as possible.

Appendix 3

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

Scottish Children's Reporter Administration

2016/17 Annual Audit Report

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