

Children's Hearings Scotland

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Children's Hearings Scotland and the Auditor General for Scotland
September 2023

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Key messages

2022/23 annual report and accounts

- 1** Audit opinions on the annual report and accounts are unmodified, i.e. the financial statements and related reports are free from material misstatement.
- 2** Key risks arising from the audit of Children's Hearing Scotland (CHS) accounts in our Annual Audit Plan were presented to the Audit Committee on 16 May 2023. There are no significant matters from that work to draw to the attention of the Board.
- 3** Expenditure and income were incurred in accordance with applicable enactments and guidance.
- 4** The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

Wider-scope

- 5** CHS has effective and appropriate arrangements in place to continue to deliver services
- 6** CHS has effective and appropriate arrangements in place to continue to deliver services.
- 7** CHS has a 5-year financial plan outlining the impact of a number of legislative and operational developments.
- 8** Governance Statement disclosures are consistent with the financial statements and comply with statutory guidance.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of Children's Hearings Scotland (CHS). The scope of the audit was set out in our Annual Audit Plan presented to the 16 May 2023 meeting of the Audit and Risk Management Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of CHS' annual report and accounts
- wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#), which for less complex bodies includes conclusions on financial sustainability, disclosures in the governance statement and high level assessment of arrangements to secure best value.

2. This report is addressed CHS and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment from 2022/23

3. I, Asif A Haseeb OBE, has been appointed by the Auditor General as auditor of CHS for the period from 2022/23 until 2026/27. The 2022/23 financial year is the first of his five-year appointment. The audit appointment coincides with the new Code of Audit Practice (the Code) which was introduced for financial years commencing on or after 1 April 2022.

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 course of the five-year appointment.

Responsibilities and reporting

5. CHS has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from Scottish Ministers. CHS is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity.

6. The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2021](#) and supplementary guidance and International Standards on Auditing in the UK.

7. The Code of Audit Practice 2021 (the Code) includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services. As highlighted in our

2022/23 Annual Audit Plan, due to the low volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2022/23 audit.

8. The weaknesses or risks identified in this report are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

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

Auditor Independence

10. We can confirm that we 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 2022/23 audit fee of £14,940 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

11. We add value to CHS by:

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

Part 1. Audit of 2022/23 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.

CHS'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 annual report and accounts 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

12. The board is expected to approve the annual report and accounts for CHS for the year ended 31 March 2023 on 26 September 2023. As reported in the independent auditor's report:

- 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, 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.

Overall materiality was assessed on receipt of the annual report and accounts as £130,000

13. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected

to influence the economic decisions of users of the accounts, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

14. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed and revised on receipt of the draft annual report and accounts and is summarised in [Exhibit 1](#). The revision of materiality did not impact on the audit approach.

Exhibit 1

Materiality values

Materiality level	Amount
Overall materiality	£130,000
Performance materiality	£100,000
Reporting threshold	£7,000

Source: Audit Scotland

15. 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. Our assessment of the base percentage for materiality has not changed since we considered it during the planning phase.

16. 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 reflecting factors such as findings from previous audits, our planning work and the entity's control environment including fraud risks.

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

Significant findings and key audit matters

18. Under International Standard on Auditing (UK) 260, we communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices.

19. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

20. 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>CHS initially recognised a pension asset of £893k due to the valuation provided by their actuary.</p> <p>CHS's actuary provided further analysis that confirmed that a pension asset ceiling could be applied which limits the asset recognised in the financial statements.</p> <p>During the audit we reviewed International Financial Reporting Standards Interpretations Committee (IFRIC 14) guidance on <i>The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>.</p> <p>Our review concluded that for CHS, no defined benefit plan asset or liability should be recognised in the 2022/23 financial statements.</p>	<p>CHS has amended the financial statements, recognising no pension asset or liability as at 31 March 2023.</p> <p>We are content with this treatment in the audited accounts.</p>
<p>2. IFRS 16 Disclosures</p> <p>There were presentational issues identified in relation to the disclosure of right of use assets (ROUAs).</p> <p>Government Financial Reporting Manual (FReM) requires right of use assets to be disclosed on the face of the Statement of Financial Position, as well as being included in a separate note to the accounts. These presentational disclosures were not included in the draft financial statements. Additionally, finance and operating lease terminology was used throughout the draft financial statements which is now outdated.</p> <p>The application guidance also specifies that the depreciation element of ROUAs, as well as the lease liability cash repayments, are to be presented in the Statement of Cash Flows when applying IAS 7 Statement of Cash Flows. It does not specify to include lines for the recognition of Right of Use Assets which CHS had included in the draft accounts at £162k.</p>	<p>CHS has amended the presentational of the financial statements in order to comply with the requirements of IFRS 16.</p> <p>We are content with the amended disclosures.</p>

Issue	Resolution
<p>3. Capital payables and accruals in the Statement of Cash Flows (CFS)</p> <p>The Government Financial Reporting Manual (FReM) requires entities to analyse capital expenditure and financial investment as part of the CFS. In doing so, entities should adjust for debtors and creditors relating to capital expenditure.</p> <p>The CFS presented in the draft accounts did not have these required capital adjustments totalling £49k.</p>	<p>CHS has agreed to amend the Statement of cash flows.</p> <p>We are content with the treatment in the audited accounts.</p>

Our audit work responded to the risks of material misstatement we identified in the annual report and accounts

21. 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 we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we 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>Made enquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Tested journals at the year-end and post-closing entries, focusing on significant risk areas.</p> <p>Tested journal entries and other adjustments during the period.</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 relationships and transactions in the financial statements.</p> <p>Assessed any changes to the methods and underlying assumptions used to</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>prepare accounting estimates compared to the prior year.</p> <p>Conducted substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</p> <p>Completed focused testing of accounting accruals and prepayments.</p>	

22. In addition, we identified “areas of audit focus” in our 2022/23 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:

- Estimation and valuation – There is a high level of complexity and uncertainty involved in IAS-19 accounting. There is therefore an inherent risk over the valuation of the pension liability, where changes to specialist assumptions and estimates can result in material changes to the valuation. Our work in this area is detailed in [Exhibit 2](#) above.
- 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.

23. We kept these areas under review throughout our audit. Based on the findings of the audit procedures performed, CHS have sufficient procedures in place to address IT risks. One area for improvement was identified and communicated to management. This related to plans to introduce testing of the business continuity plan during 2023/24 which we will follow up as part of our 2023/24 audit.

24. In relation to the risk over pension estimation, there were adjustments made following the audit work conducted on IAS-19 and our conclusions regarding this matter are set out in [Exhibit 2](#).

There were material and non-material misstatements identified within the financial statements

25. All material misstatements were corrected as detailed in the significant findings in [Exhibit 2](#).

26. As part of our work on non current assets we identified a weakness in record keeping where assets included in the fixed asset register were not included in the asset tracker spreadsheet maintained by CHS staff. We are content there is no material misstatement as a result of this and finance staff are aware of the issue. We would recommend that as part of the accounts preparation for 2023/24 that work is undertaken to ensure the asset tracker agrees with the fixed asset register. Management have advised that this point is already being addressed and we will follow it up in 2023-24.

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

27. The unaudited annual report and accounts were received in line with 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.

Good progress was made on prior year recommendations

28. CHS made good progress in implementing prior year audit recommendations. We followed up on actions agreed in the 2021/22 Annual Audit Report, to assess what progress on implementations had been made. All recommendations were implemented during 2022/23 as set out in [Appendix 1](#).

29. Our review of the performance report against the requirements of the FReM identified that some required information was not included in the correct section. Management agreed to make the necessary presentational changes to comply with the FReM.

Recommendation 1

Management should include a review of the performance report against FReM requirements in their annual accounts process in future years.

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

CHS has effective and appropriate arrangements in place to continue to deliver services.

CHS has a 5-year financial plan outlining the impact of a number of legislative and operational developments.

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

CHS exceeded its budget for 2022/23 and used reserves to manage the overspend.

30. The main financial objective for CHS is to ensure that the financial outturn for the year is within the budget allocated by the Scottish Government. However, as noted in Appendix 1, a prior year recommendation was made regarding CHS' large cash balance at year-end. Because of this, CHS agreed that they would draw down less than the 2022/23 allocation in order to make use of existing resources and reduce excess cash held.

31. After adjusting for expenditure not chargeable against the resource Departmental Expenditure Limit (DEL), CHS has reported an outturn of £5.739 million against its overall budget for 2022/23 of £5.35 million for its revenue budget and an out turn of £0.425 million against a capital budget of £0.4 million . The financial performance against its Departmental Expenditure Limits (DEL) is shown in [Exhibit 4](#).

Exhibit 4 Performance against DEL in 2022/23

Performance	Final budget £m	Outturn £m	Over/(under) spend £m
Resource DEL	5.35	5.739	0.360
Capital DEL	0.4	0.425	0.025

Total DEL	5.75	6.164	0.385
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Source: Children's Hearings Scotland 2022/23 Annual Report and Accounts

32. As reported in the 2021/22 Annual audit report CHS's cash balance as at 31 March 2022 was £1.1 million. CHS agreed with the Scottish Government that they would drawdown less of their allocation in 2022/23 to reduce this balance.

33. CHS used reserves to manage the overspend during 2022/23 and have advised that the Scottish Government were kept up to date with the overspend position and have agreed that it will be managed going forwards.

CHS has a medium-term financial plan outlining the impact of a number of legislative and operational developments

34. CHS' 2022/23-2027/28 5-year financial plan was approved by the Board in November 2022. CHS' forecast includes additional costs in 2023/24 relating to The Promise and the Children's Care and Justice Bill and the estimated costs associated with the implementation of a new Tribunal Support model. Forecasts in the financial plan are based on several assumptions including increased operation, inflationary costs and pay growth.

35. There is a large increase in anticipated costs from 2023/24 onwards. The key increases are due to legislative and operational change as outlined below.

- Legislative change will be required in order to support the implementation of the Promise through the Promise Bill. CHS have started making arrangements in preparation for the introduction of the bill.
- The Care and Justice Bill makes changes to the law in relation to the care of children and the involvement of children in the criminal justice system. The Bill is projected to have a significant impact on the work of the hearings system and CHS. The main change impacting on CHS is that the definition of "child" in the hearings system is changing from someone under 16 to someone under 18. CHS have projected that the impact of this change will be an increase of approximately 2,400-3,400 hearings annually.
- Tribunal Support Model - CHS has commenced a programme of work to identify a new structure consisting of fewer regional hubs and a mixed of paid and sustainable volunteer roles that will enable consistency of service, quality and improvement of experiences for children and families and the capacity and capability to deliver the change required of the Promise. This will require additional investment. Work is still to be completed but early estimates indicate additional investment requirement of £1.5m-£3m per annum.

36. CHS should work alongside the Scottish Government to ensure that these key projects are appropriately funded in future medium-term financial plans in particular the costs associated with the introduction of the new Tribunal Support Model.

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

37. Our review of the Governance Statement within the annual report and accounts assessed the assurances which are provided to the Accountable Officer regarding the adequacy and effectiveness of CHS's system of internal control which operated in the financial year. As in previous years, the Accountable Officer has placed reliance on the assurances provided by senior staff who are responsible for the development and maintenance of the internal control framework and the Audit and Risk Management Committee.

38. The Accountable Officer also relied on internal audit findings reported during the year, and their overall opinion.

Appropriate governance arrangements are in place

39. Our review of the minutes and papers submitted to the Board throughout the year concluded that Board papers are sufficiently detailed and comprehensive to allow for effective decision making and scrutiny of performance.

40. We regularly attend Audit and Risk Management Committee meetings and note that these are well attended. Papers are circulated in good time and members provide effective scrutiny and challenge.

CHS has appropriate arrangements in place for securing Best Value

41. [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 2022/23 audit we have undertaken a high-level review of CHS's Best Value arrangements.

42. The Chief Executive of CHS is the designated Accountable Officer. A range of processes are in place to help the Accountable Officer demonstrate Best Value. These include:

- an appropriate management structure, which sets out clear lines of responsibility and reporting, and robust systems used in decision-making, budgeting, procurement and risk management
- regular monitoring of performance including financial performance against budget
- 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.

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

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. 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 CHS accounts do not comply with the FReM.</p>	<p>CHS should continue to review and update the performance report on an annual basis to ensure they are presenting the key information including financial information in a user-friendly way and to ensure that all FReM requirements are met.</p> <p>Paragraph 29</p>	<p>Agreed.</p> <p>The Shared Services Finance Manager will review the draft 2023-24 Performance Report for compliance with the FReM.</p> <p>Shared Services Finance Manager</p> <p>31 May 2024</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>b/f 1. Development of CSAS System</p> <p>There is no formal arrangement between SCRA and CHS in relation to the CSAS system.</p> <p>Responsibilities around the current operation, maintenance and any future developments should be considered to ensure clarity around each party's role.</p> <p>Risk – There is a risk that the lack of formalised arrangements could lead to misunderstandings in</p>	<p>CHS and SCRA should formally agree on how the operation, maintenance and development of the CSAS system should be taken forward.</p>	<p>A report was approved by the Digital Change Advisory Board in April 2023 which evidences agreement on the operation, maintenance, and development of the CSAS system.</p> <p>Complete</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>responsibilities and accountability over future systems development.</p>		
<p>b/f 2. Cash Balances</p> <p>CHS have accumulated significant cash balances and there is currently no plan in place to reduce these accumulated funds.</p> <p>Risk – There is a risk that ongoing significant cash balances will not be effectively utilised in support of future services.</p>	<p>CHS together with the Scottish Government should discuss how these funds can be applied within the existing budget arrangements.</p> <p>A financial plan should be agreed to reduce the level of cash balances held in line with the requirements of the SPFM.</p>	<p>CHS agreed a plan with the Scottish Government in order to reduce the year-end cash balance, whereby they drew down less than the SG allocation.</p> <p>The 31 March 2023 cash balance was seen to have reduced when compared to the previous year-end.</p> <p>Complete</p>
<p>b/f 3. Governance policies and internal controls</p> <p>Some governance policies are not being timeously reviewed to ensure their appropriateness. The register of interests was not updated timeously.</p> <p>There is scope to enhance payroll controls.</p> <p>Risk – There is a risk that proper governance procedures are not in place. Internal controls are not effective in identifying fraud and/or irregularities.</p>	<p>CHS should ensure that policies are kept up to date and that the registers of interest are timeously updated. In addition, there is scope to enhance the internal controls around payroll reconciliations.</p>	<p>A thorough review of CHS policies took place in 2022/23. The registers of interest were also updated in year. Similarly, management have made improvements to controls over payroll reconciliations.</p> <p>Complete</p>
<p>b/f 4. Performance Report</p> <p>The performance report could be enhanced by using diagrams and tables and by linking better the individual sections.</p> <p>Risk – There is a risk that the information provided in the performance report is unclear or misstated leading to a lack of clarity.</p>	<p>CHS should review the content and presentation of its performance report to ensure it takes full advantage of the opportunity to communicate directly to stakeholders about its activities.</p>	<p>We have concluded that improvements have been made to the content and presentation of the performance report.</p> <p>Notably there is specific evidence of enhanced readability. It was noted that there has been limited improvement to diagrams and tables.</p> <p>Superseded recommendation 1 above</p>

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www.audit-scotland.gov.uk/accessibility



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