

# The Scottish Children's Reporter Administration

Report on the 2006/07 Audit



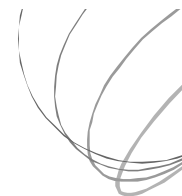
November 2007





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# Executive Summary

## Introduction

In 2006/07 we audited the financial statements of the Scottish Children's Reporter Administration (SCRA) and we looked at aspects of performance management and governance. This report sets out our key findings.

## Financial position

We have given an unqualified opinion on the financial statements of SCRA for 2006/07.

The SCRA had an excess of expenditure over income of £22.516 million in 2006/07 (2005/06 £24.208 million). The excess of expenditure over income was set against Grant in Aid of £25.307 million contributing to an increase on the general fund of £3.207 million. SCRA's net asset position in 2006/07 decreased to £2.536 million (2005/06 £3.753 million). This decrease is primarily attributable to an increase in pension liabilities as a result of changes in actuarial assumptions.

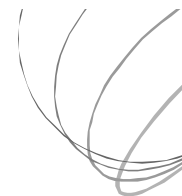
## Performance

The focus of the Scottish Children's Reporter Administration 2007/08 Business Plan ensures that core statutory functions can continue to be delivered within an environment of rising case volume, increased case complexity and fixed budgets. The plan in place is subject to regular review and monitoring at Board level.

SCRA was one of the subjects of a national report to the Auditor General, 'Dealing with Offending by Young People: Performance Update' in August 2007. The report highlights that overall there have been some improvements to youth justice services in Scotland since the initial reports were published in December 2002 and November 2003. However the report also contains a number of recommendations to address the challenges of the '*Getting it right for every child*' agenda and to deliver the outstanding recommendations from the earlier reports. The report includes a number of action points for youth justice services in Scotland.

## Governance

Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. Overall the corporate governance and control arrangements for the Scottish Children's Reporter Administration operated satisfactorily during the year, as reflected in the Statement on Internal Control.



## Looking forward

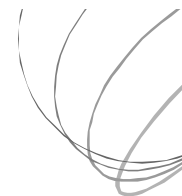
In the 2007/08 financial year, we will continue to monitor progress on SCRA's Business Plan and programme of change. We also intend to review the progress SCRA has made in strengthening Best Value arrangements since our baseline review of this area in 2005/06.

**Audit Scotland**  
**November 2007**



# Introduction

1. This report summarises the findings from our 2006/07 audit of the Scottish Children's Reporter Administration. The scope of the audit was set out in our Audit Plan, which was presented to the Audit Committee on 13<sup>th</sup> March 2007. This plan described the work we planned to carry out on financial statements, performance and governance.
2. Appendix A of this report sets out the key risk highlighted in this report and the action planned by management to address it.
3. This is the first year of a five year audit appointment. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the Scottish Children's Reporter Administration during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website, [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).



# Financial Statements

4. In this section we summarise key outcomes from our audit of the Scottish Children's Reporter Administration's financial statements for 2006/07, and comment on the key financial management and accounting issues faced.

## Our responsibilities

5. We audit the financial statements and give an opinion on whether:
  - they give a true and fair view of the financial position of the Scottish Children's Reporter Administration and its expenditure and income for the period in question
  - whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
  - the regularity of the expenditure and receipts.
6. We also review the statement on internal control by:
  - considering the adequacy of the process put in place by the Director of Finance as accountable officer to obtain assurances on systems of internal control
  - assessing whether disclosures in the statement are consistent with our knowledge of the Scottish Children's Reporter Administration.

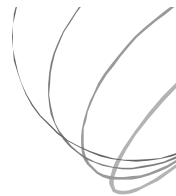
## Overall conclusion

7. We have given an unqualified opinion on the financial statements of the Scottish Children's Reporter Administration for 2006/07.

## Financial position

### 2006/07 outturn

8. The SCRA had an excess of expenditure over income of £22.516 million in 2006/07 (2005/06 £24.208 million). The excess of expenditure over income was set against Grant in Aid of £25.307 million contributing to an increase on the general fund of £3.207 million. SCRA's net asset position in 2006/07 decreased to £2.536 million (2005/06 £3.753 million). This decrease is primarily attributable to an increase in pension liabilities as a result of changes in actuarial assumptions.

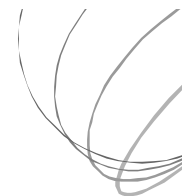


9. The Scottish Children's Reporter Administration has reported lower operating costs in 2006/07 than in 2005/06. This is primarily as a result of exceptional items which arose in 2005/06, a permanent diminution of asset values charged to the operating cost statement and increased hearing and legal costs, not recurring in 2006/07
10. A change in the Financial Reporting Manual (FReM) for 2006/07 has required a restatement to the 2005/06 figures. The FReM no longer allows Grant in Aid to be treated as income. Grant in Aid is now treated as a contribution from a controlling body, taken directly to the general fund on the balance sheet. The result of this change is that SCRA is no longer required to hold a liability in respect of deferred government grants.

## **2007/08 budget**

11. The SCRA has been allocated grant in aid of £22.972 million for running costs in 2007/08 (2006/07: £23.707 million) and a further £5.1 million for capital expenditure (2006/07: £1.6 million).
12. The Scottish Children's Reporter Administration corporate plan for 2007-10 has three broad objectives:
  - To drive improvements in practice quality and to modernise case handling processes
  - To deliver a programme of change and transition into '*Getting it right for every child*' and to improve communications
  - To transform current technology arrangements and to implement quality property developments while securing the financial resources needed to deliver these objectives.
13. Whilst it is recognised that the substantially increased capital budget will assist in transformation of the current technology arrangements, failure to adequately scope the impact of achievement of these objectives could impact on SCRA's ability to operate within its agreed funding arrangements. As a result, SCRA has implemented a 2007/08 Business Plan to prioritise activities carried out in pursuance of statutory functions. This matter is considered further in the performance section following.

***Action point 1***



## Issues arising from the audit

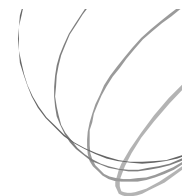
14. We reported the following issues to the Audit Committee on 21 August 2007:

- **Grant in Aid** - The Financial Reporting Manual (FReM) had been amended in 2006/07 to require NDPBs to regard grants and grants-in-aid received for revenue purposes as a financing flow, and no longer as income; they therefore should have been credited to the income and expenditure reserve. In the accounts presented for audit, grant in aid was credited directly to income. In resolution of this issue, officers correctly transferred all grant in aid to the general fund reserve. The effect of this restatement resulted in SCRA disclosing net assets for 2006/07 and the prior year, as opposed to net liabilities
- **Indexation** – The FReM requires that assets disclosed in the financial accounts, other than land and buildings, have their value indexed to show the assets at a depreciated replacement cost, as opposed to historic cost. Note 8 of the financial statements included all categories of asset at historic cost. It was agreed that, because of the immateriality, no adjustment would be made to the accounts for this in 2006/07 however officers have agreed that indexation will be applied from 2007/08
- **Operating Lease and PFI Commitments** – The FReM requires that for operating lease and PFI commitments, the estimated payment in the year following the year of account should be disclosed. In the accounts presented for audit, the PFI commitments note disclosed the average of the next three years' payment. In resolution of this issue, officers amended Note 16 of the financial accounts to disclose commitments for operating leases and private finance initiatives in the year following the year of account and the treatment is FReM compliant.

## Statement on internal control

15. The Statement on Internal Control provided by SCRA's Accountable Officer reflected the main findings from both external and internal audit work. Neither Audit Scotland, nor the Internal Audit function (provided by PricewaterhouseCoopers) raised any issues which were required to be disclosed in the Statement of Internal Control.





## Regularity assertion

16. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts was incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.

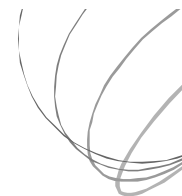


# Performance

17. Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. As part of our audit we are required to plan reviews of aspects of the arrangements to manage performance, as they relate to economy, efficiency and effectiveness in the use of resources.
18. Accountable officers also have a duty to ensure the resources of their organisation are used economically, efficiently and effectively. These arrangements were extended in April 2002 to include a duty to ensure 'best value' in the use of resources.

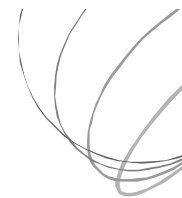
## Performance

19. The SCRA has been operating in an environment of increasing activity and increasing case complexity. These continuing operations are to be carried out by SCRA within existing budgets and resources. As a result, SCRA has implemented a 2007/08 Business Plan to prioritise activities carried out in pursuance of statutory functions.
20. SCRA has focused the prioritisation plan on:
  - improving processes
  - ensuring capacity
  - building effective partnerships
  - ensuring efficient services.
21. A review of Project Management Arrangements by Pricewaterhouse Coopers in July 2007 concluded that SCRA has a robust project management framework in place and each project team is clearly focused on the delivery of project outcomes, linked to relevant corporate objectives. The review also concluded that reporting structures are clear and progress is regularly reported to the Programme Board as well as to other relevant service managers. This is an area we will continue to monitor in 2007/08.



## Dealing with offending by young people: performance update

21. A study was carried out by Audit Scotland, on behalf of the Auditor General, to provide a performance update to follow up the previous 'Dealing with Offending by Young People' reports issued by Audit Scotland in December 2002 and November 2003.
22. The study assessed the progress made by the Scottish Executive, local authorities and other agencies (including Association of Chief Police Officers in Scotland (ACPOS), Crown Office and Procurator Fiscal Services (COPFS) and SCRA) in implementing the recommendations made in the 2002 and 2003 reports in the context of a significantly changed policy landscape.
23. A report setting out the key findings from the performance update study was published in August 2007. It highlighted that increased funding and a stronger focus on youth justice services have delivered some positive changes, but significant challenges remain.
24. The key recommendations arising from the study, relating to SCRA were:
  - SCRA should review variation in decision-making by reporters and the reasons for this variation. SCRA should also review their guidance to reporters to ensure decision-making is in accordance with good practice.
  - Councils and SCRA should review current guidance on reports, including the use of risk assessment tools. Further training and support should be given to social workers to improve the quality of social background reports.
  - The Scottish Executive, in consultation with SCRA, should review the training of Children's Panel members to equip them to tackle all offending behaviour appropriately.
  - SCRA, ACPOS and COPFS should review arrangements for jointly reported cases and ensure that good practice and guidance are being followed.
25. SCRA has developed an action plan to address the recommendations made in the report and Audit Scotland will continue to monitor progress made against this plan.



# Governance

## Overview of arrangements

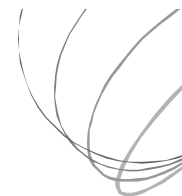
26. This section sets out our main findings arising from our review of the Scottish Children's Reporter Administration's governance arrangements. This year we reviewed:
- key systems of internal control
  - the internal audit function.
27. We also discharged our responsibilities as they relate to the prevention and detection of fraud and irregularity; standards of conduct; and the organisation's financial position. Our overall conclusion is that governance arrangements within the Scottish Children's Reporter Administration are sound and have operated throughout 2006/07.

## Systems of internal control

28. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. In their annual report for 2006/07 PricewaterhouseCoopers (PwC) provided their opinion that, their work did not identify any significant control weaknesses that they consider to be pervasive in their effects on the system of internal control. PwC have not identified any weaknesses from their audit work during the year that they consider should be included as 'Significant Internal Control Issue(s)' in SCRA's Statement on Internal Control.
29. As part of our audit we reviewed the high level controls in a number of SCRA's systems that impact on the financial statements. Our overall conclusion was that key controls were operating effectively.

## Internal audit

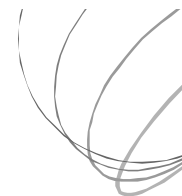
30. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and as part of our risk assessment and planning process for the 2006/07 audit we assessed whether we could place reliance on SCRA's internal audit function. Our review concluded that the internal audit service operates in accordance with the Government Internal Audit Manual and we were therefore able to place reliance on those areas set out in our Audit Plan.



# Looking Forward

31. The Scottish Children's Reporter Administration faces a number of challenges in 2007/08, which include:

- **Implementing the 2007/08 Business Plan** – The Scottish Children's Reporter Administration has developed a Business Plan to ensure that core statutory functions can continue to be delivered within an environment of rising case volume, increased case complexity and fixed budgets. The continued delivery of statutory services within this environment will be challenging and we will continue to monitor progress in this area in 2007/08.
- **Best Value** – As part of the 2007/08 audit we will be reviewing the progress that the SCRA has made in strengthening their arrangements for securing Best Value since our baseline review work in 2005/06. Over the next year we will also be developing and refining our approach to the audit of public bodies' arrangements to secure economy, efficiency and effectiveness in the use of resources, as this is one of our key objectives as auditors, set out within the new Code of Audit Practice approved by the Auditor General. This will inform our ongoing work to develop an approach to the audit of Best Value across the Scottish public sector. We intend to consult with both clients and stakeholders at key stages of these initiatives.
- **International Financial Reporting Standards** – The introduction of IFRS's from 2008/09 is likely to significantly change some accounting policies. SCRA will need to review their accounting policies at an early stage to ensure that appropriate disclosures are made in the financial statements and that restatement of comparative figures is completed early in 2008.



# Appendix A: Action Plan

## Key issues and planned management action

Action Point	Issue Identified	Planned Action	Responsible Officer	Target Date
1	The delivery of corporate objectives within existing revenue budgets will be challenging for SCRA. Failure to adequately scope the objectives could impact on SCRA's ability to operate within its agreed funding arrangements.	Corporate objectives will be revised as part of the 2008/09 planning process and informed by the financial outcomes of the 2007 Spending Review (SR07). An aligned planning and budgeting process will ensure corporate business and group plan activities are costed and affordable.	Principal Reporter	March 2008