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Key messages

In 2008/09 we looked at the key strategic and financial risks being faced by the Scottish Children's Reporter Administration (SCRA). We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

Financial statements

We have given an unqualified opinion on the financial statements of SCRA for 2008/09. We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers.

Financial position and use of resources

SCRA reported a deficit of £2.273 million in 2008/09. This is the difference between net expenditure for the year of £25.578 million and the funding received from the Scottish Government of £23.305 million. This deficit position for the year is as a result of a combination of factors although a main element of the deficit in 2008/09 was the FRS 17 adjustment to pension scheme contributions which resulted in an expense of £832,000 (£665,000 income 2007/08).

Scottish Ministers have agreed a resource budget for SCRA of £30.328 million for 2009/10 with £23.328 million of this funded for revenue expenditure and the remaining £7 million for a capital modernisation programme. The capital budget has increased significantly on previous years and is intended for a modernisation programme in support of changes to the Children’s Hearing System in Scotland which are expected to be introduced in Spring 2010.

A £321,000 overspend is currently being forecast against the 2009/10 budget for SCRA, primarily relating to overspends on staff costs, information system and legal costs. SCRA intend to manage this position and have prepared a business case for the Scottish Government seeking assistance with legal costs which SCRA deem to be exceptional. SCRA has a continuing requirement to make 1.5% cash releasing efficiency savings in the next two years’ budget settlements. These are challenging targets for SCRA to achieve and we will continue to keep progress in this area under review.

Governance and accountability

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 SCRA operated satisfactorily during the year, as reflected in the Statement on Internal Control.
We examined the key financial systems which underpin the organisation’s control environment. We concluded that financial systems and procedures operated sufficiently well to enable us to place reliance on them.

**Performance**

SCRA met 13 out of 15 key targets for 2008/09. SCRA performance against their key performance indicators was an improvement on 2007/08 for nine of the indicators, and equal performance for a further one of the measures. Ten measures had comparators for the prior year and SCRA has not reported any key performance indicators at lower achievement rate than the prior year.

**Looking forward**

The final part of our report notes some key risk areas and issues for SCRA going forward such as the Minister for Children and Early Years’ statement, outlined in May 2009, on proposals for the Children’s Hearing System in Scotland, which are intended to form the basis of a Bill to be introduced to the Scottish Parliament in Spring 2010. We have also highlighted a number of national issues which affect all public sector bodies including SCRA, including the National Performance Framework and the introduction of Scotland Performs and the impact of international financial reporting standards.

The assistance and co-operation given to us by SCRA members and staff during our audit is gratefully acknowledged.

Audit Scotland
October 2009
Introduction

1. This report summarises the findings from our 2008/09 audit of Scottish Children’s Reporter Administration (SCRA). The scope of the audit was set out in our Audit Plan, which was presented to the Audit Committee on 10 February 2009. This plan set out our views on the key business risks facing the organisation and described the work we planned to carry out on financial statements, performance and governance.

2. We have issued several reports this year, and we briefly touch on the key issues we raised in these report. Each report set out our detailed findings and recommendations and SCRA’s agreed response.

3. Best value duties apply across the public sector and, in central government, best value is a formal duty on all accountable officers. Audit Scotland has adopted a generic framework for the audit of best value across the public sector and throughout this report we comment on aspects of SCRA’s arrangements.

Exhibit 1: Framework for a best value audit of a public body

- Corporate assessment
  - Vision and strategic direction
  - Effectiveness of partnerships
  - Governance and accountability (including community and stakeholder engagement)
  - Use of resources
  - Performance management and improvement

- Performance assessment
  - National and local outputs and outcomes based on the National Performance Framework, Single Outcome Agreements (where relevant) and improvement targets
  - High-quality, continually improving services, that are efficient and responsive to local needs

* National outcome 15
4. Our comments are made on the basis of information made available in the course of the annual audit. We do not make an overall best value judgement because we do not have enough evidence to conclude on all relevant areas. Our intention is to build up the corporate assessment over time. This report is the first step towards that goal.

5. Another building block for our assessment of best value is the national study programme carried out by Audit Scotland on behalf of both the Auditor General for Scotland and the Accounts Commission. We mention the key findings from all relevant reports, and the implications for SCRA, throughout this report. Full copies of the study reports can be obtained from Audit Scotland’s website, www.audit-scotland.gov.uk.

6. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by the management team of SCRA during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website.
Financial Statements

7. In this section we summarise key outcomes from our audit of SCRA’s financial statements for 2008/09 and the accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available to it and its financial performance in the use of those resources.

Our responsibilities

8. We audit the financial statements and give an opinion on:

- whether they give a true and fair view of the financial position of SCRA and its expenditure and income for the period in question
- whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
- the consistency of the information which comprises the sections Our year at a glance, Our Stories, Our Statistics and Our Accounts, within the Annual Report
- the regularity of the expenditure and receipts.

9. We also review the statement on internal control by:

- considering the adequacy of the process put in place by the Principal Reporter / Chief Executive as Accountable Officer to obtain assurances on systems of internal control
- assessing whether disclosures in the statement are consistent with our knowledge of SCRA.

Overall conclusion

10. We have given an unqualified opinion on the financial statements of SCRA for 2008/09.

11. As agreed the unaudited accounts were provided to us on 8 June 2009, supported by a comprehensive working paper package. We concluded our audit within the agreed timetable and provided our opinion to the Audit Committee on 1 September 2009 as timetabled.

Issues arising from the audit

12. As required by auditing standards we reported to the audit committee on 1 September 2009 the main issues arising from our audit of the financial statements. There were no significant issues arising from the audit which we considered necessary to draw to the attention of the Audit Committee.
Regularity

13. 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 were 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 her view on adherence to enactments and guidance. No significant issues were identified for disclosure.

International financial reporting standards (IFRS)

14. As announced by the Chancellor in the 2008 Budget report on 12 March 2008 (Budget report paragraph C103), Government departments and other public sector bodies will report using International Financial Reporting Standards (IFRS) from 2009/10. The Scottish Government announced on 25 April 2008 that all Scottish Government Departments, Executive Agencies, Health Bodies and Non-Departmental Public Bodies would be required to produce shadow IFRS based accounts for financial year 2008/09. This was to include a restated balance sheet as at 1 April 2008.

15. In terms of the audit of the IFRS opening balance sheet at 1 April 2008, there were two key dates to achieve as outlined below:

- **28 November 2008** – opening 2008 IFRS-based balance sheet were to be presented to auditors for dry-run audit
- **28 February 2009** – dry-run audit of opening balances was to be completed, resulting in a letter to management highlighting the work done, auditors’ findings and areas for further work.

16. The opening balance sheet and supporting documentation were submitted by SCRA for audit for review by the deadline date of 28 November 2008. We will review the full shadow accounts as part of our 2009/10 audit.
Use of Resources

17. Sound management and use of resources (people, money and assets) to deliver strategic objectives is a key feature of best value. This section sets out our main findings from a review of SCRA.

- financial position
- national studies.

Financial Position

Outturn 2008/09

18. SCRA reported a deficit of £2.273 million in 2008/09. This is the difference between net expenditure for the year of £25.578 million and the funding received from the Scottish Government of £23.305 million. This deficit position for the year is as a result of a combination of factors although a main element of the deficit in 2008/09 was the FRS 17 adjustment to pension scheme contributions which resulted in an expense of £832,000 (£665,000 income 2007/08).

Financial sustainability and the 2009/10 budget

19. Scottish Ministers have agreed a resource budget for SCRA of £30.328 million for 2009/10. The total resource budget has been allocated with £23.328 million for operating expenditure and £7.0 million for capital expenditure. This capital budget is significantly larger than the prior year and is intended to develop and implement a modernisation programme to support changes to the Children’s Hearing System in Scotland which are expected to be introduced in a Parliamentary Bill in Spring 2010.

20. As at 30 September 2009, SCRA is predicting a £321,000 overspend against its 2009/10 budget which is primarily attributable to overspends on staff costs, information system and legal costs. SCRA intend to manage this position throughout the remainder of 2009/10 and have prepared a business case for the Scottish Government seeking assistance with legal costs which SCRA deem to be exceptional. SCRA has a continuing requirement to make 1.5% cash releasing efficiency savings in the next two years’ budget settlements. These are challenging targets for SCRA to achieve and we will continue to keep progress in this area under review.
National Studies

21. Audit Scotland published three national studies relevant to SCRA’s use of resources. These were use of consultancy services, improving energy efficiency and procurement.

Use of consultancy services

22. The overall aim of the study was to review central government’s use of consultancy services and to make recommendations to improve the public sector’s use of consultants’ knowledge, skills and resources to help deliver new services and initiatives quickly and expertly. The key findings were as follows:

- The public sector is strengthening the way it buys goods and services.
- Central government does not have a clear strategy for its use of consultants or for linking use to its priorities or financial and workforce plans.
- In most cases, central government buys consultancy services well but some improvements can be made.
- Central government could improve how it manages consultancy projects through more consistent and formal evaluation of consultants’ work and learning more from them.
- Central government could make savings of up to £13 million a year through better planning and buying of consultancy services.

23. The report made specific recommendations for public bodies:

- confirm they have clear processes for approving and recording the use of consultants and monitoring progress, and reinforce these as required
- plan their use of consultancy services when developing their forward work programme to ensure that consultants are used where their knowledge and skills bring greatest value for money
- always evaluate the option to use consultants against the option to use their own staff
- gather and share consistent information on the consultancy skills bought and why consultants are used
- improve the quality of their invitations to tender through better and earlier discussion with consultants about their consultancy needs
- increase the use of framework agreements where possible by ensuring that existing agreements are used and new ones developed as appropriate
select and use the most economical competition routes by using framework agreements, restricted competitions and closed tendering approaches when appropriate

evaluate the work of consultants more systematically and share findings from these reviews

work closely with consultants to increase assurance on quality and make use of opportunities to learn from consultants and ensure knowledge transfer, where appropriate.

24. SCRA is currently considering this report and what, if any, actions are required as a result of the report findings.

**Improving energy efficiency**

25. Audit Scotland assessed how councils, NHS bodies and central government bodies were improving energy efficiency in relation to buildings and transport use. This included examination of a range of issues including whether public bodies demonstrate commitment to improving energy efficiency; how public bodies are performing against their objectives and targets for improving energy efficiency; and if public bodies are delivering continuous improvement in this area.

- Funding has been made available by the Scottish Government and public bodies to improve energy efficiency. While energy consumption in buildings has fallen, spending on energy increased in the three years to 2006/07.
- There is a need for stronger leadership by the Scottish Government and within public bodies to improve energy efficiency and ensure that the necessary cultural and behavioural changes are made.
- A robust strategy is central to the coordination of activities to improve energy efficiency, however, there are inconsistencies in the quality of strategies being implemented.
- There is a lack of formal monitoring and reporting of progress in improving energy efficiency by public bodies and the Scottish Government.

26. SCRA is currently considering this report and what, if any, actions are required to be taken as a result of the report findings. SCRA are currently finalising, and intend to publish in the near future, their ‘green plan’, which is intended to assist SCRA in reducing their carbon footprint. Looking forward, SCRA intend to establish a baseline carbon footprint and reduction targets.

**Improving public sector purchasing**

27. The Audit Scotland report Improving public sector purchasing was published on 23 July 2009. It provides a position statement on the progress and impact of the Public Procurement Reform Programme (the Programme), which aimed at improving purchasing practice and making savings of about three per cent a year.
28. The report finds that the public sector in Scotland is improving its purchasing and has estimated it has saved a total of £327 million in the first two years of the Programme, which has cost £61 million so far to implement.

29. The current economic climate means that more than ever, the public sector needs to find cash savings without cutting services or quality. Because of the public sector’s size and combined purchasing power, there is still potential for it to buy goods and services more efficiently and deliver more significant savings through increased collaboration and better management. There has been progress in recent years but it has varied across the country and been slower than planned.

30. The report recommends that the public sector should increase the use of collaborative contracts. These are a key feature of the Programme, but are being developed more slowly than expected. The health sector has been the most successful in this, introducing 150 new contracts and saving £54 million in the two years to 2007/08. Other high level recommendations highlight the good purchasing practice that public bodies should adopt to demonstrate Best Value.

<table>
<thead>
<tr>
<th>Extract from Audit Scotland report Improving public sector purchasing</th>
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</thead>
<tbody>
<tr>
<td>To demonstrate Best Value when purchasing goods and services public bodies should:</td>
</tr>
<tr>
<td>• Have high-quality purchasing strategies and plans in place, including a plan to meet future workforce needs.</td>
</tr>
<tr>
<td>• Have up-to-date information on their purchasing activities such as supplier details, volume of transactions, value and type of spend.</td>
</tr>
<tr>
<td>• Ensure all purchasing practices, including control of spending, comply with good practice as set out in national and centre of expertise guidance.</td>
</tr>
<tr>
<td>• Work with the Scottish Government and centres of expertise to identify and develop opportunities for collaboration and for improved purchasing practice.</td>
</tr>
<tr>
<td>• Use procurement Best Practice Indicators to assess their performance and to continually improve how they buy goods and services.</td>
</tr>
<tr>
<td>• Report savings and other benefits on a regular and consistent basis.</td>
</tr>
</tbody>
</table>

31. Audit Scotland will follow up this report with further audit work on public sector purchasing.
Governance and Accountability

32. High standards of governance and accountability, with effective structures and processes to govern decision-making and balanced reporting of performance to the public, are fundamental features of best value. This section sets out our findings arising from a review of SCRA’s arrangements.

33. Increasingly services are being delivered across the public sector through partnership working, sometimes involving complex governance and accountability arrangements. Best value characteristics also include effective partnership working to deliver sustained improvements in outcomes.

Overview of arrangements

34. This year we reviewed:

- systems of internal control
- internal audit
- arrangements for the prevention and detection of fraud and irregularity, including standards of conduct
- national studies.

35. Our overall conclusion is that arrangements within SCRA are sound and have operated through 2008/09.

Systems of internal control

36. 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 2008/09 PriceWaterhouseCoopers LLP, provided their opinion that their work did not identify any significant control weaknesses that they considered to be pervasive in their effects on the system of internal control.

37. As part of our audit we reviewed the high level controls in a number of SCRA’s systems that impact on the financial statements. This audit work covered a number of areas including payroll, ordering and certification and budgetary control. Our overall conclusion was that key controls were operating effectively and that SCRA has adequate systems of internal control in place.
Statement on Internal Control

38. The Statement on Internal Control provided by SCRA’s Accountable Officer reflected the main findings from both external and internal audit work. This recorded management’s responsibility for maintaining a sound system of internal control and set out SCRA’s approach to this.

Internal Audit

39. 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 2008/09 audit we assessed whether we could place reliance on SCRA’s internal audit function. We concluded that PriceWaterhouseCoopers LLP operates in accordance with the Government Internal Audit Manual and therefore placed reliance on their work in number of areas during 2008/09, as we anticipated in our annual audit plan. This included reliance on aspects of internal audit’s systems work to avoid duplication of effort.

40. In addition to the internal audit function provided by PriceWaterhouseCoopers, SCRA also has a well developed ‘in-house’ practice audit function. SCRA’s practice audit completed a significant programme of work in 2008/09 and provided the SCRA Audit Committee with assurances on the effectiveness of the arrangements within SCRA for discharging the Principal Reporter’s statutory responsibilities towards children referred to the Reporter.

Prevention and detection of fraud and irregularities

41. SCRA has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption, including policies and codes of conduct for all staff members.

National Studies

42. Audit Scotland published one national study relevant to SCRA’s governance and accountability. This was a review of major capital projects.

Major capital projects

43. This report was the first systematic review of major capital projects in Scotland. It considered the progress of all 43 projects completed in the five years between April 2002 and March 2007, and a sample of current major projects. It looked at progress against cost and time estimates, quality specifications and project management in general. The main findings from the report were as follows:

- In general, the achievement of cost and time targets improved significantly as projects progressed.
Early cost and time estimates at project approval stage were too optimistic for many major projects.

Performance against cost and time estimates is better after contracts are awarded, as plans are more certain and risks clearer.

Most completed projects have successfully delivered the required roads, hospitals and other assets, and all current projects are forecast to do so. However, few projects have been evaluated to demonstrate that they have delivered the expected wider benefits which originally justified the investment.

Nine current projects examined had awarded the main construction contract, which should increase cost certainty. However, four projects had significant increases in estimated cost before reaching this stage.

Project management and governance arrangements within individual projects are broadly effective, although room for improvement remains. A more strategic approach to managing the programme of capital projects could improve value for money.

44. SCRA have considered this national study and will further consider aspects of this study as part of a review of its business case process and recently completed projects.
Performance

45. 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. Key features of best value include:

- setting a clear vision of what the organisation wants to achieve, backed up by plans and strategies to secure improvement, with resources aligned to support their delivery
- a performance management culture which is embedded throughout the organisation and a performance management framework which is comprehensive and supports the delivery of improved outcomes.

46. In this section we comment on:

- SCRA’s corporate plan
- performance
- risk management arrangements
- SCRA’s efficiency programme.

Corporate plan

47. On 8 October 2008 SCRA published its corporate plan for 2008 – 2011. The plan focuses on three strategic objectives:

- **Service Delivery** – Driving improvements in practice quality and the management of SCRA casework for children
- **Service Modernisation** – Transforming the way SCRA deliver services for children and families, and
- **Organisational Transition** – Transitioning SCRA to the new single agency for the children’s Hearings System.

48. Within each strategic objective SCRA has identified key actions that will require to be carried out. For example, intended improvement of the SCRA case management system and the design, build and implementation of a new, upgraded and modernised Referrals Administration System. SCRA has also identified key performance indicators to be used to track progress towards achievement of the strategic objectives over the next two years.

49. The delivery of these objectives will be particularly challenging given the risks to achieving the resource budget during the period. This is an area we will keep under review during our appointment.
Performance

50. SCRA fully achieved thirteen out of fifteen of their Key Performance Indicators (KPI) for 2008/09. Their performance against the KPIs was an improvement on 2007/08 for nine of the indicators, and equal performance for a further one of the measures. Ten measures had comparators for the prior year and therefore SCRA has not reported any KPIs at lower achievement rate than the prior year.

51. Highlights from the KPIs included:
   - 75% of Hearings were scheduled to take place within 20 working days from Reporter decision, an increase of 5.9% from 2007/08. This was 5% more than the 70% target.
   - 91% of Hearings were scheduled to take place within 30 working days from Reporter decision, an increase of 1.8% from 2007/08. This was 1% more than the 90% target.
   - 85% of written notifications of referral outcomes sent to children and families within five working days, an increase of 10.5% from 2007/08. This was 15% more than target.
   - 95% of written notifications of Hearing decisions sent to children and families within five working days, an increase of 4.1% from 2007/08. This was 6% more than target.
   - The average number of days for referrals on offence grounds from date of receipt of referral to Hearing decision being 64 days against a target of 68 days. This was a reduction of 4 days compared to the previous year.
   - The average number of days for referrals on non-offence grounds from date of receipt of referral to Hearing decision being 120 days against a target of 124 days. This was a reduction of 9 days compared to the previous year.
   - A target of 1.5% efficiency savings was exceeded in the year and re-invested in frontline services.
   - 1.9% staff turnover savings in the Regions achieved in the year against a target of 4.66%.
   - 8.9% staff turnover savings at head Office achieved in the year against a target of 5.72%.

52. Of the two KPIs where performance did not comply with the target rate, the first related to the variance in annual capital spend as a percentage of the budget. SCRA had a target of variance within 10%, and the variance was 13.7%.

53. The second KPI where performance had decreased related to the percentage of staff turnover savings achieved in the year for the Regions. The target rate was 4.66% and the actual achievement was 1.9%. Although this measure has not met the target set the overall efficiency savings achieved met the target due to the over achievement of the similar target for Head Office.
54. We will continue to monitor SCRA’s performance against key performance indicators as part of our 2009/10 audit.

Risk management

55. The Board has put in place systems for the identification and management of risk with the adoption of a strategic risk register. This strategic risk register is reviewed quarterly by the Executive Management Team and SCRA’s top risks are incorporated in the annual business plan. Strategic risk management is established in the corporate planning and decision making processes of SCRA and there is an intention by SCRA to implement an operational risk management framework from 2009/10.

56. SCRA’s internal auditors reviewed risk management arrangements during 2008/09. This review led to a detailed action plan proposing an update of risk management policies and procedures at SCRA coupled with the development of a clear picture of the roles and responsibilities of staff within the risk management system. SCRA are currently taking forward the implementation of these recommendations with full implementation of an updated risk management system expected by June 2010.

Efficiency

57. SCRA’s target under the Efficient Government Plan, for the three years 2008/09 to 2010/11 has been set at 1.5% per annum, as part of the budget settlement from the Scottish Government. This translates to a cumulative £2.053 million in recurring cash releasing savings required to be delivered by SCRA during the three years to 2010/11 (£0.341 million cash releasing savings in 2008/09, £0.683 million in 2009/10 and £1.029 million in 2010/11). SCRA achieved cash releasing savings of £0.396 in 2008/09 primarily as a result of the move of the IT support services to SCOTS Connect. These future efficiencies will be challenging targets for SCRA to achieve and we will keep developments in this area under review during 2009/10.
Looking Forward

58. SCRA faces a number of challenges in 2009/10, which include:

- **Children’s Hearing System** – In May 2009, following responses to a national consultation on the future of the children’s hearing system, the Minister for Children and Early Years outlined proposals which are intended to form the basis of a Bill to be introduced to the Scottish Parliament in Spring 2010. The changes to the Children’s Hearing System structure will have a major impact on SCRA. We will consider how SCRA is addressing this developing area as part of the 2009/10 audit.

- **Efficiencies and future funding** - Budgets for 2008/09 and the immediate future will need to be managed within a tighter funding regime. SCRA will be required to continue to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key targets and objectives while staying within budget. SCRA will also be required to manage a significant programme of capital modernisation to support the Government’s vision for the Children’s Hearing System in Scotland.

- **National Performance Framework** - The Scottish Government is continuing to develop its approach to performance management based on the National Performance Framework and local authority single outcome agreements. The National Performance Framework is an outcome-based approach that is publically reported on the Scottish Government’s web site in the ‘Virginia-style’ model of performance measurement and reporting. This will include progress on overall delivery of the administration’s purpose for Government, the five strategic objectives for Scotland and other aspects of the outcomes based National Performance Framework. We will consider how SCRA is addressing this developing area as part of the 2009/10 audit.

- **IFRS** - The timetable for IFRS implementation requires that central government accounts in Scotland become IFRS compliant with effect from the 2009/10 financial year. As part of the timetable for the implementation for IFRS, shadow accounts will require to be produced for 2008/09 for audit review by 30 November 2009. These processes will require significant resource to complete and it will be important that these issues are addressed early in 2009/2010.