

# Children's Hearings Scotland

2019/20 Annual Audit Report



 AUDIT SCOTLAND

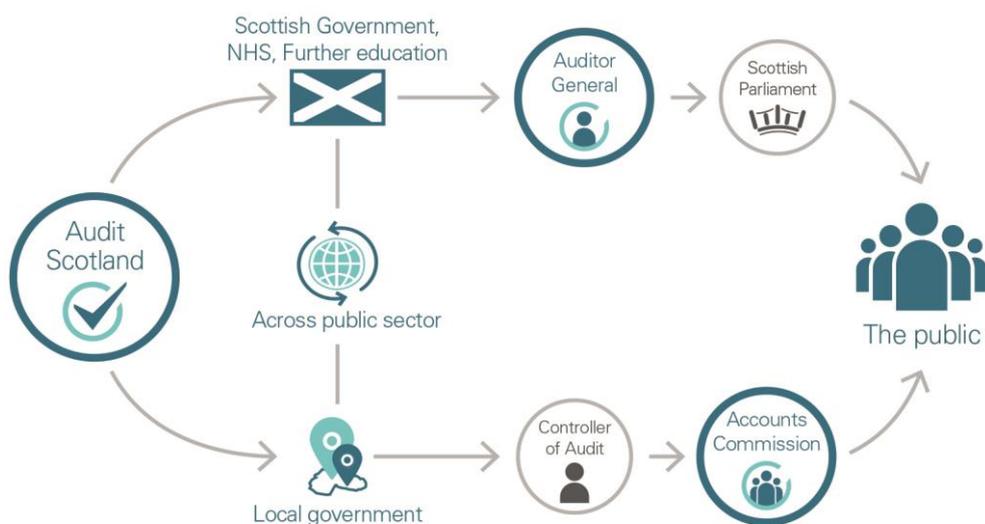
Prepared for the Children's Hearings Scotland and the Auditor General for Scotland

September 2020

## Who we are

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

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



## About us

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

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

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

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# Key messages

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## 2019/20 annual report and accounts

- 1** Children's Hearings Scotland (CHS) financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.
- 2** Expenditure and income was incurred in accordance with applicable enactments and guidance.
- 3** COVID-19 did not have a significant impact on the accounting and auditing timetable for the 2019/20 financial statements.

## Financial sustainability

- 4** CHS has medium term financial plans in place. They have not yet updated financial plans to reflect the impact of the COVID-19 pandemic.

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# Introduction

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1. This report summarises the findings from our 2019/20 audit of CHS.
2. The scope of our audit was set out in our Annual Audit Plan presented to the Audit and Risk Management Committee in February 2020. This report comprises the findings from:
  - an audit of CHS's annual accounts
  - our consideration of financial sustainability
3. Subsequent to the publication of the Annual Audit Plan, in common with all public bodies, CHS has had to respond to the COVID-19 pandemic. This impacted on the final month of the year and will continue to have significant impact into financial year 2020/21. We considered the impact of the COVID-19 pandemic on our planned audit approach in 2019/20. We did not identify any new or emerging risks, but the impact of lockdown did present CHS management and ourselves with unexpected challenges.

## Adding value through the audit

4. We add value to CHS through the audit by:
  - identifying and providing insight on significant risks, and making clear and relevant recommendations
  - sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
  - providing clear conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability
5. In so doing we aim to help CHS promote improved standards of governance, better management and decision making and more effective use of resources.

## Responsibilities and reporting

6. 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 establishing appropriate and effective arrangements for governance, propriety and regularity that enable it to successfully deliver its objectives.
7. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice 2016 and supplementary guidance and International Standards on Auditing in the UK.
8. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness and effectiveness of the performance management arrangements, the suitability and effectiveness of

corporate governance arrangements, the financial position and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice 2016 and supplementary guidance.

**9.** The Code of Audit Practice 2016 (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 2019/20 Annual Audit Plan, due to the volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2019/20 audit.

**10.** This report raises matters from our audit. The weaknesses or risks identified 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.

**11.** Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.

## **Auditor Independence**

**12.** We confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2019/20 audit fee of £10,950 as set out in our Annual Audit Plan remains unchanged.

**13.** We are not aware of any relationships that could compromise our objectivity and independence.

**14.** This report is addressed to CHS and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

**15.** We would like to thank the management and staff for their cooperation and assistance during the audit, particularly given the current challenges presented by the impact of COVID-19.

# Part 1

## Audit of 2019/20 annual report and accounts



### Main judgements

**CHS's financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.**

**Expenditure and income was 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.**

**COVID-19 did not have a significant impact on the accounting and auditing timetable for the 2019/20 financial statements.**

### Our audit opinions on the annual report and accounts are unmodified

**16.** The annual report and accounts are the principal means of accounting for the stewardship of CHS's resources and its performance in the use of those resources.

**17.** The annual report and accounts for the year ended 31 March 2020 were approved by the board on 22 September 2020.

**18.** 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.

### The accounting framework was changed due to the COVID-19 pandemic

**19.** In May 2020 an addendum to the Government Financial Reporting Manual (the FReM) was published in response to the impact of COVID-19. The addendum permits, but does not require, bodies to omit the performance analysis section from the Performance Report.

**20.** CHS elected to include a performance analysis section in line with previous years. We have confirmed through audit coverage that information given in the performance report is consistent with the financial statements.

## The annual report and accounts were signed off as per the agreed timetable

21. The unaudited annual report and accounts were received in line with our agreed audit timetable on 15 June 2020.

22. The unaudited annual report and accounts provided for audit were complete and of a good standard and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

## Overall materiality is £81,000

23. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

24. On receipt of the unaudited annual report and accounts we reviewed our materiality calculations. Our review found materiality to be slightly higher than planned levels presented in our Annual Audit Plan, but the change was not significant and had no impact on our planned audit approach.

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## Exhibit 1 Materiality values

Overall materiality	£81,000
Performance materiality	£61,000
Reporting threshold	£4,000

Source: Audit Scotland

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## Appendix 2 identifies the main risks of material misstatement identified at the planning stage and our audit work to address these

25. [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and accounts. It also summarises the work we have done to gain assurance over the outcome of these risks.

26. We have no issues to report from our work on the risks of material misstatement.

## We have no significant findings to report on the accounts, except for one included at [Exhibit 2](#)

27. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures. The significant findings are summarised in [Exhibit 2](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.

## Exhibit 2

### Significant findings from the audit of the financial statements

Finding	Resolution
<p><b>1. Achievement of Business Activities within the Performance Report</b></p> <p>We noted that the reporting mechanism for business activities is shown as completed (green), nearly met or partially achieved (amber), not complete (red) and undeliverable due to changed circumstances or no longer relevant (grey). The use of amber and grey categories could be confusing to the user of the accounts. We would ordinarily expect that if a target is not met then it would be logical that it should be reported as red.</p>	<p>We recommend that CHS consider applying a consistent reporting mechanism to targets that have not been met.</p> <p> <b>Recommendation 1</b> (refer <a href="#">appendix 1</a>, action plan)</p>

Source: Audit Scotland

**28.** There were no misstatements above our reporting thresholds identified from our audit.

**29.** There was one adjustment made in relation to the return of £45,000 of unused 2019/20 revenue grant in aid to the Scottish Government. This had the effect of increasing trade payables by £45,000 and reducing the general fund by the same amount. We reviewed the correspondence between CHS and the Scottish Government relating to the hand back and are satisfied that the accounting treatment is correct.

### Good progress was made on prior year recommendations

**30.** CHS has made good progress in implementing our prior year audit recommendations. Updates are provided in [Appendix 1](#).

# Part 2

## Financial sustainability



### Main judgements

**CHS has a medium-term financial strategy that aligns the organisations objectives and planned resources to the Corporate Plan.**

**CHS has not yet updated its financial plans to reflect the impact of the COVID-10 pandemic.**

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.

### CHS has a medium term financial plan in place

**31.** We reviewed the financial planning systems and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term.

**32.** CHS has a Corporate Plan covering 2018-2021 which includes a high level plan allocating resources to the high-level strategic outcomes.

**33.** CHS has a five-year financial strategy in place covering financial years 2019/20 to 2023/24. This was approved by the board in September 2019. CHS also produces an annual business and corporate parenting plan which outlines the work being done to achieve their business objectives and how future grant in aid will be used to fund these.

**34.** The five-year financial strategy seeks to make savings in a number of areas. This includes the increased use of internal training and meeting room facilities and reductions in IT costs as the organisation moves to new systems. Staffing costs will be closely monitored and opportunities for savings managed throughout the period. CHS regularly reports its financial position to the board and overall has adequate financial planning arrangements in place.

**35.** The five-year financial strategy aligns its objectives and planned resources to the CHS's Corporate Plan 2018-2021.

### The existing financial plan should be revised following the impact of the COVID-19 pandemic

**36.** CHS have not yet updated financial plans for the impact of COVID-19. Work on this is currently underway.



### Recommendation 2

**37.** We recommend that financial plans are updated to reflect the impact of COVID-19 on the business of CHS.

### **National performance audit reports**

**38.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. [Appendix 3](#) highlights a number of the reports published in 2019/20.

# Appendix 1

## Action plan 2019/20



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Achievement of Business Activities within the Performance Report</b></p> <p>We noted that the reporting mechanism for business activities is shown as completed (green), nearly met or partially achieved (amber), not complete (red) and undeliverable due to changed circumstances or no longer relevant (grey). The use of amber and grey categories could be confusing to the user of the accounts, and we would ordinarily expect that if a target is not met then it would be logical that it should be reported as red.</p> <p><b>Risk –</b> There is a risk that the use of grey and amber colour codings provides users with an unclear representation of how CHS has performed.</p>	<p>We recommend that CHS consider applying a consistent reporting mechanism to targets that have not been met.</p>	<p>Accepted. The DCE will discuss with the Board and Senior Management whether a simpler reporting format can continue to provide a sufficient level of detail on performance to users of the information. By 31/1/21</p>
2	<p><b>Financial planning</b></p> <p>We note that financial plans have not yet been updated to reflect the impact of COVID-19 on the business of CHS.</p> <p><b>Risk –</b> There is a risk that current financial plans are outdated in light of the COVID-19 pandemic.</p>	<p>We recommend that financial plans are updated to reflect the impact of COVID-19 on the business of CHS.</p>	<p>Accepted. The DCE will bring an updated 5-year financial plan, reflecting COVID-19, to the Board on 22 September.</p>
<b>Follow up of prior year recommendations</b>			
b/f	<p><b>Accounting treatment of dilapidations cost</b></p> <p>During the year CHS incurred dilapidation costs of £16k</p>	<p>We recommend that in future where an operating lease will have dilapidations, a provision is set up on initiation and the charge for that provision</p>	<p><b>Complete</b></p> <p>CHS have assessed whether there is a need for them to make a provision for future</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
	<p>relating the premises at Ladywell Road, which was acquired under an operating lease. In the <b>unaudited</b> accounts CHS had accounted for these as being capital in nature and recognised them on the statement of financial position. In our view this expenditure was revenue in nature. We requested that the disclosure should be corrected to treat this item as in year administration costs.</p> <p><b>Risk</b> – CHS accounts may not reflect the cost of operating leases and dilapidations correctly.</p>	<p>spread over the life of the lease by a reducing prepayment. At the end of the lease the cost of the dilapidations would be charged to the provision.</p>	<p>dilapidations relating to their new premises at Haymarket Terrace.</p> <p>They have concluded that this is not necessary, as the clauses of their memorandum of terms of occupation (MOTO) with their landlord, preclude CHS from being liable from being required to pay back anything other than natural disaster. We reviewed the documentation and are satisfied with this conclusion.</p>

# 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.

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of material misstatement caused by management override of controls</b></p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business</p>	<p>We reviewed the appropriateness of journal entries and other adjustments recorded in the general ledger and financial statements.</p> <p>We reviewed accounting estimates for biases and evaluated significant transactions that are outside the normal course of business.</p> <p>We carried out detailed testing of trade payable and trade receivable transactions to ensure that they were posted to the correct financial year.</p> <p>We performed substantive testing on a sample of transactions from each material category of expenditure with reference to supporting documentation to confirm that they were accounted for in the correct accounting period.</p> <p>Our conclusion is that there is no evidence of management override of controls at CHS.</p>
<p><b>2 Risk of material misstatement caused by fraud in expenditure</b></p> <p>As most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p> <p>Although no specific indication of fraud over expenditure has been identified to date, the range of different sources of</p>	<p>Clear procedures in place for staff.</p> <p>Financial authorisation limits in place.</p> <p>Robust and timely budget monitoring and discussions.</p>	<p>We assessed high level key controls within payroll, accounts payable and general ledger systems.</p> <p>We performed substantive testing on a sample of transactions from each material category of expenditure with reference to supporting documentation to confirm these were appropriately authorised and valid.</p> <p>Our conclusion is that we found no evidence of fraud over expenditure from our testing.</p>

Audit risk	Assurance procedure	Results and conclusions
expenditure combined with the relative high volume of transactions gives rise to a potential fraud risk.		

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# Appendix 3

## Summary of national performance reports 2019/20



**2019/20  
Reports**

		Apr	
Social security: Implementing the devolved powers		<b>May</b>	
Scotland's colleges 2019		<b>Jun</b>	 Enabling digital government
		Jul	
NHS workforce planning - part 2		<b>Aug</b>	
Finances of Scottish universities		<b>Sept</b>	
NHS in Scotland 2019		<b>Oct</b>	
		Nov	
Local government in Scotland: Financial overview 2018/19		<b>Dec</b>	
Scotland's City Region and Growth Deals		<b>Jan</b>	 Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
		Feb	
		<b>Mar</b>	 Early learning and childcare: follow-up

# Children's Hearings Scotland

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