

# Children's Hearings Scotland

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for Children's Hearings Scotland  
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# Contents

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Introduction	3
Financial statements audit planning	5
Audit dimensions	9
Reporting arrangements, timetable, and audit fee	11
Other matters	13

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# Introduction

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## Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of Children's Hearings Scotland (CHS). The main elements of our work include:

- an audit of the annual report and accounts, and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual report and accounts including the Performance Report, the Governance Statement and the Remuneration and Staff Report
- consideration of arrangements in relation to the appropriateness of disclosures in the governance statement and the financial sustainability of CHS over the medium to longer term

## Impact of Covid-19

2. The Covid-19 pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

## Adding value

4. We aim to add value to CHS through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help CHS promote improved standards of governance, better management and decision making and more effective use of resources.

## Respective responsibilities of the auditor and CHS

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and CHS. Key responsibilities are summarised below.

## Auditor responsibilities

**6.** Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

**7.** Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

## CHS responsibilities

**8.** CHS is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

**9.** In addition, CHS has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

## Managing the transition to 2022/23 audits

**10.** Audit appointments are usually for five years but were extended to six years due to Covid-19. This current year, 2021/22, is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

# Financial statements audit planning

## Materiality

**11.** Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

### Materiality levels for the 2021/22 audit

**12.** We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for CHS are set out in [Exhibit 1](#).

## Exhibit 1

### 2021/22 Materiality levels for CHS

Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 2% of gross expenditure for the year ended 31 March 2022 based on the latest audited financial statements for 2020/21.	£86,000
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 75% of planning materiality.	£65,000
<b>Reporting threshold (ie clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	£4,000

Source: Audit Scotland

## Significant risks of material misstatement to the financial statements

**13.** Our risk assessment draws on our cumulative knowledge of CHS, its major transaction streams, key systems of internal control and risk management processes. It is also informed by our discussions with management, review of internal audit reports, attendance at committees and a review of supporting information.

**14.** Based on our risk assessment process, we identified the following significant risk of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

### Exhibit 2

#### 2021/22 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p><b>1. Risk due to fraud caused by the management override of controls</b></p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> <li>• Enquire about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</li> <li>• Test journals at the year-end and post-closing entries and focus on significant risk areas.</li> <li>• Detailed testing of journals.</li> <li>• Evaluate significant transactions outside the normal course of business.</li> <li>• Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements.</li> <li>• Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</li> <li>• Substantive testing of transactions around the year-end to confirm they are accounted for in the correct financial year.</li> <li>• Focussed testing of accounting accruals and prepayments.</li> </ul>

Source: Audit Scotland

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**15.** As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this this presumed risk in 2021/22 because CHS receives predominantly all its revenue from the Scottish Government through grant-in-aid. This will be verified substantively to grant letters. Other income (£33k in 2020/21) relates to low-risk areas such as external funding of posts.

**16.** In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this risk for CHS on the basis that:

- most expenditure is in low-risk areas where individual transactions are well-controlled (for example salaried staff costs in a well-defined grading system and routine training, recruitment and running costs)
- experience of the audit of CHS, including a review of past misstatements.

**17.** We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

### Other areas of audit focus

**18.** As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses. If our assessment of risk changes and we consider these risks to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

**19.** The areas of specific audit focus are:

- Estimates and judgements in the valuation of the pension liability: CHS recognised a net liability of £2.5 million, relating to its share of the Lothian Pension Fund, as at 31 March 2021. There is a large degree of subjectivity in the measurement and valuation of the pension fund liability. The valuation is based on specialist assumptions and estimates and changes can result in material changes to the valuation. We will review the work of the specialist valuer to assess whether we can rely on their professional judgement.

### Audit risk assessment process

Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will

advise management and where relevant, report them to those charged with governance.

# Audit dimensions

## Introduction

20. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

## Audit dimensions

21. The four dimensions that frame our audit work are shown in [Exhibit 3](#).

### Exhibit 3 Audit dimensions



Source: Code of Audit Practice

22. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years).

- **Governance and transparency** – governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership, and decision-making and transparent reporting of financial and performance information.
- **Value for money** – value for money refers to using resources effectively and continually improving services.

**23.** The Code of Audit Practice includes provisions relating to the audit of less complex 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. We plan to apply these provisions of the Code to the 2021/22 audit of CHS in light of the volume and lack of complexity of the financial transactions.

### **Duty of Best Value**

**24.** Ministerial Guidance to Accountable Officers for public bodies and the Scottish Public Finance Manual (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We shall undertake a high-level review to confirm that such arrangements are in place within CHS.

### **Audit dimension risks**

**25.** We have not identified any further audit risks with regards to the audit dimensions for CHS.

# Reporting arrangements, timetable, and audit fee

## Reporting arrangements

**26.** Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 4](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**27.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. A draft annual audit report will be issued to the relevant officers to confirm factual accuracy.

**28.** We will provide an independent auditor's report to CHS, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide the CHS and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

**29.** [Exhibit 4](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report after the board meeting on 20 September 2022.

## Exhibit 4 2021/22 Audit outputs

Audit Output	Target date	Audit and Risk Committee Date
Annual Audit Plan	30/04/2022	10/05/2022
Annual Audit Report	16/08/2022	23/08/2022
Independent Auditor's Report	20/09/2022	20/09/2022 (Board)

Source: Audit Scotland

## Timetable

**30.** To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included an agreed timetable for the audit at [Exhibit 5](#) that has been discussed with management.

**31.** We will continue to work in close partnership with CHS over the course of the audit.

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### Exhibit 5 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	31 May 2022
Latest date for final clearance meeting with the Head of Finance and Resources	2 August 2022
Agreement of audited and unsigned annual report and accounts	16 August 2022
Issue of Annual Audit Report, Letter of Representation and proposed Independent Auditor's Report to those charged with governance.	16 August 2022
Presentation of our Annual Audit Report to the Audit and Risk Committee	23 August 2022
Approval of the CHS annual report and financial statements by the Board; Independent Auditor's Report signed	20 September 2022

Source: Audit Scotland

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## Audit fee

**32.** The agreed audit fee for the 2021/22 audit of CHS is £11,440 (2020/21: £11,230). In determining the audit fee, we have taken account of the risk exposure of CHS, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

**33.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual report and accounts or the absence of adequate supporting working papers, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

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# Other matters

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## Internal audit

**34.** International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures.
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort.
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities; and
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

**35.** From our initial review of the internal audit plans, we do not plan to place formal reliance on internal audit's work for our financial statements' responsibilities. We will continue to engage with internal audit on key issues related to the audit.

## Independence and objectivity

**36.** Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

**37.** The engagement lead (i.e. appointed auditor) for CHS is Helen Russell, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of CHS.

## Quality control

**38.** International Standard on Quality Control (UK) 1 (ISQC1) requires a system of quality control to be established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

**39.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the [Code of Audit Practice](#) (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

**40.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

# Children's Hearings Scotland

## Annual Audit Plan 2021/22

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

[www.audit-scotland.gov.uk/accessibility](http://www.audit-scotland.gov.uk/accessibility)

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