

# Children's Hearings Scotland

2020/21 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Children's Hearing Scotland and the Auditor General for Scotland  
September 2021



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# Key messages

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## **2020/21 annual report and accounts**

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

Expenditure and income were incurred in accordance with applicable enactments and guidance.

The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

## **Financial sustainability**

CHS has a medium-term financial plan, but should keep it under close review in the current environment

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# Introduction

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- 1.** This report summarises the findings from our 2020/21 audit of Children's Hearings Scotland (CHS).
- 2.** The scope of our audit was set out in our Annual Audit Plan presented to the 11 May 2021 meeting of the Audit and Risk Management Committee. This report comprises the findings from:
  - an audit of the CHS's annual accounts
  - our consideration of financial sustainability
- 3.** The global coronavirus pandemic has had a considerable impact on CHS during 2020/21. This has had significant implications not just for the services it delivers but also for its clients. CHS has had to face the challenges of transitioning from traditional style hearings to virtual hearings with all the implications for staff, panel members, and children and young people.

## Adding value through the audit

- 4.** We add value to the 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.** 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 compliance with legislation putting arrangements in place 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 2020/21 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 2020/21 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 2020/21 audit fee of £11,230 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**13.** 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.

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# Part 1. Audit of 2020/21 annual report and accounts

The principal means of accounting for the stewardship of resources and performance

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## 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 were incurred in accordance with applicable enactments and guidance.

The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

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

**14.** The annual report and accounts for the year ended 31 March 2021 were approved by the board on 21 September 2021. 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 annual report and accounts were signed off as per the agreed timetable

15. The unaudited annual report and accounts were received on 13 June 2021.

16. The unaudited annual report and accounts provided for audit were not fully complete but were sufficient to allow us to commence our audit work. Finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

## Overall materiality is £65,000

17. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed [and revised] on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

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### Exhibit 1 Materiality values

| Materiality level       | Amount  |
|-------------------------|---------|
| Overall materiality     | £65,000 |
| Performance materiality | £48,000 |
| Reporting threshold     | £3,000  |

Source: Audit Scotland

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

18. [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and inform where the efforts of the team are directed. Appendix 2 also identifies the work we undertook to address these risks and our conclusions from this work.

## We have no significant findings to report on the accounts

19. 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. We have no issues to report from the audit.

## **Identified misstatements of £23,848 were adjusted in the accounts, these were less than our performance materiality and we did not need to revise our audit approach.**

**20.** Total misstatements identified were £23,848.

**21.** We have reviewed the nature and causes of these misstatements and have concluded that they arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error.

**22.** Adjustments made in the audited accounts decreased net expenditure in the Statement of Comprehensive Net Expenditure by £23,848 and decreased net liabilities in the Statement of Financial Position by £23,848.

**23.** It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. Management have adjusted all identified misstatements above our reporting threshold there are no unadjusted errors to report.

## **Other matters arising from the audit of the annual report and accounts**

**24.** We found that reconciliations between key financial systems and the general ledger were not prepared and reviewed consistently or regularly during the year. The absence of regular and timely reconciliations increases the risk of unresolved error and/or undetected fraud.

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### **Recommendation 1**

**CHS should ensure that reconciliations between key financial systems and the general ledger are prepared and reviewed in a regular and timely manner. ([Appendix 1](#))**

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### **Good progress was made on prior year recommendations**

**25.** CHS has made good, slow progress in implementing our prior year audit recommendations. There are no actions outstanding.

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# Part 2. Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services

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## Main judgements

**CHS has a medium-term financial plan, but should keep it under close review in the current environment**

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**26.** 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.

**27.** The CHS Board approved a revised 5-year strategic plan 2020/21-2025/26 in September 2020. This revised and updated the previous plan to take account of the impact of Covid-19 as known at that time. Supporting this CHS prepares an annual Business and Corporate Parenting Plan. Budget submissions are presented to the Scottish Government on an annual basis.

**28.** The use of the annual planning process has equipped CHS to respond to the challenges of the ongoing pandemic. The current Business and Corporate Parenting plan focused on the early part of 2021-22 with a review planned for September 2021.

**The existing financial plan should be reviewed to assess the impact of the Covid-19 pandemic**

**29.** Covid-19 has had a significant impact on CHS's operations and there are still challenges ahead as it enters the business recovery stage. The 5-year strategic Financial Plan was reviewed in September 2020. In the current circumstances there is a risk that the assumptions and projections may no longer be appropriate.

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## Recommendation 2

CHS should keep the strategic Financial Plan under review to ensure that the assumptions and projection it contains are still appropriate and that delivery of CHS objectives is achieved.

**30.** The Statement of Financial Position shows the net liabilities position has reduced slightly at £0.919 million (2019/20 £0.949 million). This is principally due to the improvement in the general fund position which has offset an increase in the pension reserve deficit. The decline on this reserve arises from actuarial loss on pensions (£0.955 million) reported in year in accordance with IAS19.

### **National performance audit reports**

**31.** 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 2020/21.

# Appendix 1. Action plan 2020/21

## 2020/21 recommendations

| Issue/risk   | Recommendation   | Agreed management action/timing   |
|--|--|---|
| <p><b>1. Reconciliations between key financial systems and the general ledger</b></p> <p>We found that reconciliations between key financial systems and the general ledger were not prepared and reviewed consistently or regularly during the year.</p> <p>Risk – The absence of regular and timely reconciliations increases the risk of unresolved error and/or undetected fraud.</p>  | <p>CHS should ensure that reconciliations between key financial systems and the general ledger are prepared and reviewed in a regular and timely manner.</p> <p><a href="#">Paragraph 24.</a></p>                                      | <p>Reconciliations between the key financial systems and the general ledger will be prepared and reviewed monthly.</p> <p>Responsible officer<br/>Finance Manager</p> <p>Agreed date<br/>September 2021</p>   |
| <p><b>2. The impact of Covid-19 on the CHS Financial Strategy</b></p> <p>Covid-19 has had a significant impact on CHS's operations and there are still challenges ahead as it enters the business recovery stage. The 5-year strategic Financial Plan was reviewed in September 2020.</p> <p>Risk - In the current circumstances there is a risk that the underlying assumptions and projections may no longer be appropriate.</p> | <p>CHS should keep the strategic Financial Plan under review to ensure that the assumptions and projection it contains are still appropriate and that delivery of CHS objectives is achieved.</p> <p><a href="#">Paragraph 24.</a></p> | <p>The Financial Plan will be kept under review to ensure that the assumptions and projection it contains are still appropriate and that delivery of CHS objectives is achieved.</p> <p>Responsible officer<br/>Finance Manager</p> <p>Agreed date<br/>September 2021</p> |

# Appendix 2. Significant audit risks

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.

## Risks of material misstatement in the financial statements

| Audit risk  | Assurance procedure  | Results and conclusions   |
|---|--|---|
| <p><b>1. Risk of material misstatement due to fraud caused by the management override of controls</b></p> <p>Although we have not identified any specific risks of management override of control at CHS, Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements 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>Owing to the nature of this risk, assurances from management are not applicable in this instance.</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> |

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

# Appendix 3. Summary of 2020/21 national performance reports

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April

[Affordable housing](#)

June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

July

[The National Fraud Initiative in Scotland 2018/19](#)

January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

February

[NHS in Scotland 2020](#)

March

[Improving outcomes for young people through school education](#)

# Children's Hearings Scotland

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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)



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN  
T: 0131 625 1500 E: [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)  
[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)