

# Children's Hearings Scotland

2021/22 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Children's Hearings Scotland and the Auditor General for Scotland  
September 2022

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# Key messages

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## 2021/22 annual report and accounts

- 1 Our audit opinions on the annual accounts are unmodified.
- 2 Children's Hearings Scotland's financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.
- 3 Expenditure and income were incurred in accordance with applicable enactments and guidance.
- 4 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

- 5 Children's Hearings Scotland recorded an overspend of £16,000 against its Departmental Expenditure Limit. The Scottish Government were kept up to date with the overspend position and have agreed that it will be managed going forwards.
- 6 Children's Hearings Scotland has a 5-year strategic financial plan. This includes a number of significant financial risks to CHS which will require close monitoring and review going forward.

## Governance

- 7 The Governance Statement has been prepared in accordance with the relevant statutory guidance.
- 8 Children's Hearing Scotland's governance and transparency arrangements are appropriate. Board and Governance Committees continued to meet on a remote basis throughout 2021/22 due to the ongoing Covid-19 pandemic.
- 9 The performance report included in the annual report and accounts meets the requirements of the FReM. There is scope for further development to better communicate directly with stakeholders.

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# Introduction

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1. This report summarises the findings from our 2021/22 audit of Children's Hearings Scotland (CHS).
2. The scope of our audit was set out in our 2021/22 Annual Audit Plan (AAP) presented to the May 2022 meeting of the Audit and Risk Management Committee. This report comprises the findings from:
  - an audit of CHS's annual report and accounts
  - our consideration of disclosures in the governance statement and the financial sustainability of CHS.
3. Covid-19 continued to impact on CHS's operations during 2021/22. CHS has addressed the challenges of having to hold hearings virtually through the implementation of a new virtual hearing platform alongside the Scottish Children's Reporter Administration. In addition, CHS continued to support volunteers in participating in remote hearings through the provision of information technology and training.

## 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 2](#)) and good practice guides
  - providing clear conclusions on the appropriateness, effectiveness and impact of corporate governance 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.
7. 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.
8. 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.

**9.** As public sector auditors we give independent opinions on the annual report and accounts. In addition, as part of our wider scope work, 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.

**10.** 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 2021/22 Annual Audit Plan, due to the low volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2021/22 audit.

**11.** 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 CHS from its responsibility to address the issues we raise and to maintain adequate systems of control.

**12.** 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

**13.** Auditors appointed by the Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

**14.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2021/22 audit fee of £11,440 as set out in our 2021/22 Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**15.** 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.

## Audit appointment from 2022/23

**16.** The Auditor General for Scotland is responsible for the appointment of external auditors to central government bodies. External auditors are usually appointed for a five-year term either from Audit Scotland's Audit Services Group or a private firm of accountants. The current appointment round was due to end

in 2020/21 but this was extended for a year: 2021/22 is the last year of the current appointment round.

**17.** The procurement process for the new round of audit appointments was completed in May 2022. From financial year 2022/23 Audit Scotland will continue to be the appointed auditor for CHS.

**18.** A new [Code of Audit Practice](#) applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the Code issued in May 2016. There are a number of significant changes introduced by the new Code, including the integration of Best Value work into wider scope audit work.

**19.** We would like to thank Board and committee members, the Senior Management Team and other staff, particularly those in finance for their co-operation and assistance over the last six years.

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# Part 1. Audit of 2021/22 annual report and accounts

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

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## Main judgements

Our audit opinions on the annual accounts are unmodified.

Children's Hearings Scotland'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

**20.** The annual report and accounts for the year ended 31 March 2022 were approved by the board on 20 September 2022. 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 in line with the agreed timetable

**21.** The unaudited annual report and accounts were received in line with our agreed audit timetable on 31 May 2022. However, the accounts were incomplete, due to a delay in the provision of IAS19 information from CHS's actuary. The

accounts provided on 31 May 2022 were sufficient to allow us to commence our audit work and revised version of the accounts which included all IAS19 updates together with a number of audit adjustments, was received on 29 June 2022.

**22.** Finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

## Overall materiality is £107,000

**23.** 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 we concluded that our audit approach remained appropriate. Materiality levels are summarised in [Exhibit 1](#).

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### Exhibit 1 Materiality values

| Materiality level       | Amount   |
|-------------------------|----------|
| Overall materiality     | £107,000 |
| Performance materiality | £81,000  |
| Reporting threshold     | £5,000   |

Source: Audit Scotland

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**24.** The determination of materiality is based on professional judgement and is informed by our understanding of the entity and what users are likely to be most concerned about in the annual accounts. In assessing performance materiality, we have considered factors such as our findings from previous audits, any changes in business processes and the entity's control environment including fraud risks. We also we considered the low risk and level of error identified in previous years.

**25.** The overall scope of the audit was adapted to incorporate the significant assessed risks of material misstatement and the additional audit procedures are noted within [Exhibit 3](#). These procedures focused on the nature of the risk in order to obtain sufficient and appropriate audit evidence.

## We have significant findings to report on the annual report and accounts

**26.** 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. The significant findings from the audit of the financial statements are summarised in [Exhibit 2](#). We have no issues to raise concerning the qualitative aspects of the body's accounting practices.

## Exhibit 2

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

| Issue  | Resolution  |
|--|---|
| <p><b>1. Development of CSAS System</b></p> <p>Core Systems and Applications (CSAS) is the new case management system which has been developed jointly between Scottish Children's Reporter Administration (SCRA) and CHS.</p> <p>As at 31 March 2022, all development costs for CSAS have been charged to SCRA. During 2021/22, CHS requested some CHS-specific development of the system, which was capitalised by SCRA. Total expenditure on development costs in 2021/22 was £641,000. This was funded by SCRA using capital grant in aid funding (GIA) (£524,000) and capital GIA transferred from the CHS budget (£117,000), as approved by the Scottish Government at the Spring Budget Revision.</p> <p>Now that the asset is operational, SCRA and CHS should formally agree the approach in relation to:</p> <ul style="list-style-type: none"> <li>the system as currently developed including for example respective responsibilities around performance and changes</li> <li>any further developments together with the related funding and accounting for the asset. This will be of particular importance as each organisation seeks to introduce its own specific developments.</li> </ul> | <p>CHS and SCRA should formally agree on how the operation maintenance and development of the CSAS system should be taken forward.</p> <p><b>Recommendation 1</b></p> <p>(refer <a href="#">Appendix 1</a>, action plan point 1)</p>  |
| <p><b>2. Cash Balances</b></p> <p>CHS held cash balances of £1.1 million at 31 March 2022. The Scottish Public Finance Manual notes that grant in aid should not be paid in advance of need. In addition, the grant in aid funding letter from the Scottish Government states that, 'unrestricted cash reserves held during the course of the year should be kept to the minimum level consistent with the efficient operation of the body and the level of funds required to meet any liabilities at the year-end.' These balances have been accumulated over several years.</p> <p>We have been advised that CHS has not yet agreed a plan for reducing these significant cash balances and has yet to incorporate these into future financial plans.</p>  | <p>CHS together with the Scottish Government should discuss how these funds can be applied within the existing budget arrangements.</p> <p>A financial plan should be agreed to reduce the level of cash balances held in line with the requirements of the SPFM.</p> <p><b>Recommendation 2</b></p> <p>(refer <a href="#">Appendix 1</a>, action plan point 2)</p> |

Source: Audit Scotland

**27.** We have obtained audit assurances over the identified significant risks of material misstatement to the financial statements [Exhibit 3](#) below sets out the significant risks of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan audit. It summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

### Exhibit 3 Significant risks from the audit of the financial statements

| Audit risk   | Assurance procedure   | Results and conclusions  |
|--|---|--|
| <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>Enquired about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Tested journals at the year-end and post-closing entries and focused on significant risk areas.</p> <p>Undertook detailed testing of journals.</p> <p>Evaluated significant transactions outside the normal course of business.</p> <p>Assessed the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements.</p> <p>Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</p> <p>Performed substantive testing of transactions around the year-end to confirm they are accounted for in the correct financial year.</p> <p>Performed focussed testing of accounting accruals and prepayments.</p> | <p>We did not identify any issues as a result of our audit work that would indicate management override of controls affecting the year-end position.</p> |

## Other areas of audit focus

**28.** We identified in our 2021/22 Annual Audit Plan one area where we considered there to be a risk of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we did not consider this to represent a significant risk. The risk referred to:

- Estimates and judgements in the valuation of the pension liability: 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.

**29.** We have kept this area under review throughout our audit and there are no matters which we need to bring to your attention.

## Identified misstatements of £10,733 were adjusted in the accounts: these were less than our performance materiality and we did not need to revise our audit approach

**30.** Total misstatements identified were £10,733 and related to the inclusion of employers' oncosts which were omitted from the untaken annual leave calculation.

**31.** We have reviewed the nature and causes of this misstatement and have concluded that it arose from issues that have been isolated and identified in their entirety and do not indicate further systemic error. As such we did not consider that additional testing was required.

**32.** Adjustments made in the accounts increased net expenditure in the Statement of Comprehensive Net Expenditure by £10,733 and decreased net assets in the Statement of Financial Position by the same amount.

**33.** 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.

## Good progress was made on prior year recommendations

**34.** CHS has made good progress in implementing our prior year audit recommendations. Revised responses and timescales have been agreed with management and are set out in [Appendix 1](#).

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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 recorded an overspend of £16,000 against its Departmental Expenditure Limit. The Scottish Government were kept up to date with the overspend position and have agreed that it will be managed going forwards.

CHS has a 5-year strategic financial plan. This includes a number of significant financial risks to CHS which will require close monitoring and review going forward.

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### **CHS recorded an overspend of £16,000 against its Departmental Expenditure Limit.**

**35.** The main financial objective for CHS is to ensure that the financial outturn for the year is within the budget allocated by the Scottish Government.

**36.** After adjusting for expenditure not chargeable against the resource Departmental Expenditure Limit (DEL), CHS has reported an outturn of £4.928 million against its overall budget for 2021/22 of £4.912 million. The financial performance against its DEL is shown in [Exhibit 4](#).

#### Exhibit 4 Performance against DEL in 2021/22

| Performance             | Initial budget<br>£000s | Final budget<br>£000s | Outturn<br>£000s | Over/(under)<br>spend<br>£000s |
|-------------------------|-------------------------|-----------------------|------------------|--------------------------------|
| Net expenditure         |                         |                       | 5,379            |                                |
| Less: Depreciation      |                         |                       | (296)            |                                |
| Pension finance<br>cost |                         |                       | (56)             |                                |
| IAS 19 adjustment       |                         |                       | (401)            |                                |
| Resource DEL            | 4,629                   | 4,629                 | 4,626            | (3)                            |
| Capital DEL             | 400                     | 283                   | 302              | 19                             |
| Total DEL               | 5,029                   | 4,912                 | 4,928            | 16                             |

Source: Children's Hearings Scotland 2021/22 Annual Report and Accounts

**37.** During the 2021/22 autumn and spring budget revisions the Scottish Government decreased the initial budget by £0.117 million. Capital DEL of £0.117 million was transferred to SCRA to fund CSAS system developments.

**38.** CHS have advised that the Scottish Government were kept up to date with the overspend position and have agreed that it will be managed going forwards.

#### **CHS's 5-year strategic financial plan includes a number of financial risks which will require close monitoring and review going forward.**

**39.** 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.

**40.** The CHS Board approved a revised 5-year strategic financial plan 2021/22-2026/27 in September 2021. This revised and updated the previous plan to support CHS's strategic vision and direction. It reflects the financial impact of

- the ongoing impact of covid and covid recovery priorities
- the requirement for transformational change and system re-design from The Promise and The Promise Plan

- ensuring an appropriate return on investment of the CSAS Digital development and device investment.

**41.** The strategy highlights that the next few years will continue to be challenging for the Hearing System and CHS as they continue to address Covid recovery. In addition, there remains a high level of uncertainty in terms of the ongoing impact of Covid on referral levels and therefore CHS' required capacity. It also identifies a question over whether a volunteer model remains fit for purpose for the Children's Hearing System.

**42.** We consider that CHS has adequate financial planning arrangements in place which reflect the potential impact of the pandemic of the provision of future services. The challenge will be to balance the requirements of the service with an ever tightening budget envelope as outlined in the Scottish Government Recent resource spending review.

### **CHS records net liabilities in the statement of financial position**

**43.** The Statement of Financial Position summarises what is owned and owed by CHS. This shows taxpayers' equity – an accounting measurement of the amount invested that has continuing public benefit.

**44.** The financial statements show that CHS had net liabilities of £366,000 (2020/21: £919,000). This improved position is largely as a result of the change in the 2021/22 pension reserve deficit (£611,000), when compared to the 2020/21 pension reserve deficit of £1,631,000. The change in value arose as a result of the actuarial gain on pensions and is impacted by market volatility and changes in the financial assumptions used in its measurement. The net liabilities position is not considered an issue in relation to the going concern of CHS as all funding is received from the Scottish Government on an ongoing basis with 2022/23 funding agreed.

### **National performance audit reports**

**45.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. [Appendix 2](#) highlights a number of the reports published in 2021/22.

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# Part 3. Governance and Transparency

Governance and transparency are concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

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## Main judgements

The Governance Statement has been prepared in accordance with the relevant statutory guidance.

Governance and transparency arrangements are appropriate. Board and Committees continued to meet on a remote basis throughout 2021/22 due to the ongoing Covid-19 pandemic.

The performance report included in the annual report and accounts meets the requirements of the FReM. There is scope for further development to better communicate directly with stakeholders.

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## The Governance Statement has been prepared in accordance with relevant statutory guidance

**46.** HM Treasury's Financial Reporting Manual (the FReM) states that CHS must prepare an annual governance statement within the annual report and accounts. Guidance is set out within the Scottish Public Finance Manual (SPFM) for the content of the governance statement and provides assurances around the achievement of the organisation's strategic objectives. The SPFM does not provide a format for the annual governance statement but sets out minimum requirements for central government bodies.

**47.** We have reviewed the content of the Governance Statement and we concluded that the information disclosed complies with the guidance issued by the Scottish Ministers. Based on our knowledge and work performed, it presents an appropriate picture of the governance arrangements in place.

## Governance and transparency arrangements are appropriate

**48.** CHS's Board is made up of members who are appointed by, and accountable to, the Scottish Government and have corporate responsibility for ensuring that CHS fulfils its aims and objectives, including delivery of its strategic objectives. The Board is supported by two Committees namely the Audit and Risk Management Committee and the Remuneration and Appointments Committee.

**49.** During 2021/22 Board and Committee meetings were held remotely using Microsoft Teams (or equivalent). We are aware that there are plans to move to a hybrid form of working with members attending meetings in person.

**50.** We have reviewed the minutes and papers submitted to the Board throughout the year. The papers are detailed and comprehensive to allow for effective decision making and scrutiny of performance. The Board papers are readily accessible on the CHS website.

**51.** We attend the Audit and Risk Management Committee meetings and papers are circulated to members in a timely manner in advance of meetings for review. We observed and concluded that members are engaged during meetings and provide effective scrutiny and challenge.

**52.** In addition, from a review of the committee structure including composition and frequency of meetings, we have concluded that governance arrangements are appropriate.

### **Some governance policies need to be updated and internal controls could be enhanced**

**53.** As part of our audit work, we undertook a review of the governance arrangements. We reviewed a range of policies including members' and staff codes of conduct and whistleblowing. While the content of the policies was reasonable, we identified that the policies had not been updated or reviewed by management contrary to CHS' own planned review dates. Management have subsequently confirmed that the members' code of conduct has since been reviewed and the staff code of conduct will be reviewed by the end of 2022. Action will be taken to update the whistleblowing policy.

**54.** In addition, we noted that the register of interests for one Board member had not been updated timeously and did not show an up-to-date position when the first draft of the 2021/22 accounts was prepared.

**55.** We also undertook a high-level review of the controls in place within the key financial systems as part of our initial planning work. We noted that there is some scope to enhance the payroll controls. Payroll reconciliations could be enhanced by including evidence of checking ledger balances to original source payroll system, and by including a reconciliation of the net salary payable to actual payments made through the bank account.

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## **Recommendation 3**

CHS should ensure that policies are kept up to date and that the registers of interest are timeously updated. In addition, there is scope to enhance the internal controls around payroll reconciliations.

(refer [Appendix 1](#), action plan point 3)

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## The performance report could be further improved

**56.** In addition to the opinion on the performance report covered in Part 1 of our Annual Audit Report, we also consider the qualitative aspects of the performance report. The purpose of a performance report is to provide information on the main objectives and strategies, and the principal risks that it faces. It is required to provide a fair, balanced and understandable analysis of performance and is essential in helping stakeholders understand the financial statements. The performance report is an opportunity for the organisation to ‘tell its story’ about what it has achieved with the funding made available to it.

**57.** We discussed some amendments to the narrative and concluded that CHS’s performance report met the requirements of the FReM.

**58.** From our review of the annual report presented for audit, we concluded that there was scope to provide a more informative and more easily understandable picture of performance in 2021/22. Chapter 3 of the FReM gives additional guidance for narrative reporting. It refers to the role of narrative reporting and provides some best practice guidance for developing narrative. It includes:

- balance in narrative reporting
- context and trends
- design choices and graphics
- usability
- using clear English.

**59.** Further information can also be found in Audit Scotland’s 2019 report: [Good practice note on improving the quality of central government annual report and accounts](#). HM Treasury published a [Best Practice Report 2020-2021](#) which outlines examples of best practice taken from 2020-21 annual reports and accounts. The best practice examples outlined display a range of characteristics, including enhanced transparency and accountability, good accessibility and clear presentation of information, for example through the use of formatting/graphics to help the understanding of users of the accounts.

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## Recommendation 4

CHS should review the content and presentation of its performance report to ensure it takes full advantage of the opportunity to communicate directly to stakeholders about its activities.

(refer [Appendix 1](#), action plan point 4)

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# Appendix 1. Action plan 2021/22

## 2021/22 recommendations

| Issue/risk   | Recommendation  | Agreed management action/timing  |
|--|---|--|
| <p><b>1. Development of CSAS System</b></p> <p>There is no formal agreement between SCRA and CHS in relation to the CSAS system. Responsibilities around the current operation, maintenance and any future developments should be considered to ensure clarity around each party's role.</p> <p>Risk: There is a risk that the lack of formalised arrangements could lead to misunderstandings in responsibilities and accountability over future systems development.</p> | <p>CHS and SCRA should formally agree on how the operation, maintenance and development of the CSAS system should be taken forward.</p> <p><a href="#">Exhibit 2, point 1</a></p>   | <p>Agreed. CHS and SCRA will seek to reach a formal agreement on how the operation, maintenance and development of the CSAS system should be taken forward.</p> <p>National Convener/Chief Executive Officer</p> <p>31 December 2022</p> |
| <p><b>2. Cash Balances</b></p> <p>CHS have accumulated significant cash balances and there is currently no plan in place to reduce these accumulated funds.</p> <p>Risk: There is a risk that ongoing significant cash balances will not be effectively utilised in support of future services.</p>  | <p>CHS together with the Scottish Government should discuss how these funds can be applied within the existing budget arrangements.</p> <p>A financial plan should be agreed to reduce the level of cash balances held in line with the requirements of the SPFM.</p> <p><a href="#">Exhibit 2, point 2</a></p> | <p>Agreed. This will be addressed as part of updating the 5 Year Strategic Financial Plan and agreed with the Board and Scottish Government.</p> <p>Depute Chief Executive</p> <p>30 September 2022</p>                                  |
| <p><b>3. Governance policies and internal controls</b></p> <p>Some governance policies are not being timeously</p>   | <p>CHS should ensure that policies are kept up to date and that the registers of interest are timeously updated. In addition, there is</p>  | <p>Agreed. The policies and registers of interest will be timeously updated.</p>   |

| Issue/risk  | Recommendation   | Agreed management action/timing  |
|---|--|--|
| <p>reviewed to ensure their appropriateness. The register of interests was not updated timeously.</p> <p>There is scope to enhance payroll controls.</p> <p>Risk: There is a risk that proper governance procedures are not in place. Internal controls are not effective in identifying fraud and/or irregularities.</p> | <p>scope to enhance the internal controls around payroll reconciliations</p> <p><a href="#">Paragraphs 53-55</a></p>   | <p>Business Operations &amp; Governance Lead</p> <p>31 December 2022</p> <p>The internal controls around payroll reconciliations will be strengthened.</p> <p>Finance Manager</p> <p>30 September 2022</p> |
| <p><b>4. Performance Report</b></p> <p>The performance report could be enhanced by using diagrams and tables and by linking better the individual sections.</p> <p>Risk: There is a risk that the information provided in the performance report is unclear or misstated leading to a lack of clarity.</p>                | <p>CHS should review the content and presentation of its performance report to ensure it takes full advantage of the opportunity to communicate directly to stakeholders about its activities.</p> <p><a href="#">Paragraph 56</a></p> | <p>Agreed. The content and presentation of the performance report will be reviewed.</p> <p>Depute Chief Executive</p> <p>30 November 2022</p>  |

## Outstanding prior year recommendations

| Issue/risk  | Recommendation   | Agreed management action/timing   |
|---|--|---|
| <p><b>5. 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>Our testing confirmed that payroll reconciliations are now being reviewed.</p> <p>Complete</p> |

| Issue/risk  | Recommendation  | Agreed management action/timing   |
|---|---|---|
| <p><b>6. 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>The 5-year financial strategy was updated to reflect the ongoing impact of Covid-19 together with other business developments.</p> <p><a href="#">Refer to paras 39-42 above</a></p> <p>Complete</p> |

# Appendix 2. Summary of 2021/22 national performance reports and briefing papers

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## May

[Local government in Scotland Overview 2021](#)

## June

[Covid 19: Personal protective equipment](#)

## July

[Community justice: Sustainable alternatives to custody](#)

## September

[Covid 19: Vaccination programme](#)

## January

[Planning for skills](#)

[Social care briefing](#)

## February

[NHS in Scotland 2021](#)

## March

[Local government in Scotland: Financial Overview 20/21](#)

[Drug and alcohol: An update](#)

[Scotland's economy: Supporting businesses through the Covid 19 pandemic](#)

# Children's Hearing Scotland

## 2021/22 Annual Audit Report

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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