

Scottish Children's Reporter Administration

Draft Annual Audit Plan 2016/17



 AUDIT SCOTLAND

Prepared for Scottish Children's Reporter Administration

February 2017

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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Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Audit risks

2. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Scottish Children's Reporter Administration (SCRA). We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

Exhibit 1

Audit Risk	Management assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p><i>Owing to the nature of this risk, assurances from management are not applicable.</i></p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of significant management estimates and evaluate the impact of any variability in assumptions. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business.
<p>2 Indexation of Valuations</p> <p>In 2015/16, SCRA changed its method for valuing its property portfolio. Previously, property was revalued by means of an annual desktop valuation, with a full valuation carried out every five years. In 2015/16 management decided to replace the annual desktop valuation with indexation for the intervening years between the quinquennial full valuation. This method is allowed in line with the FReM.</p>	<p>Management will continue to liaise with Audit Scotland to identify a solution to this situation. If an appropriate free to user published index cannot be identified management will investigate the possibility of accessing an index via a subscription service or possibly a return to the desktop valuations of the past. Whatever solution is agreed upon it is expected that this will remain in place until the next</p>	<ul style="list-style-type: none"> • Review the valuation basis adopted to ensure it is in compliance with the 2016/17 FReM. • Detailed testing of a number of individual assets to ensure that the valuation has been undertaken in accordance with policy and that the underlying data used is accurate.

Audit Risk	Management assurance	Planned audit work
<p>However, management has not defined within the accounting policies what they consider to be a relevant index and there is no readily available guidance for commercial properties.</p> <p>There is a risk that valuations are materially different from year to year if an appropriate basis upon which the index to be applied is not consistent.</p>	<p>full valuation in 2020.</p>	<ul style="list-style-type: none"> Review the accounting treatment of the valuation.
<p>3 West Lothian Civic Centre Finance Lease</p> <p>During the 2015/16 audit, PwC noted that the finance lease agreement for West Lothian Civic Centre has not yet been signed by SCRA and West Lothian Council. SCRA have occupied the building for 8 years, and account for this as a finance lease. The provisional agreement with West Lothian Council sets out a lease term of 30 years. Without a signed agreement, there is a risk that either party could terminate the agreement leading to operational instability and potential service disruption.</p>	<p>SCRA is liaising closely with West Lothian Council to ensure that the lease is finalised and signed by 31 March 2017</p>	<ul style="list-style-type: none"> Review the terms of the lease agreement that will formally be put in place by 31 March 2017.

Reporting arrangements

- Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.
- Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.
- We will provide an independent auditor's report to SCRA, Scottish Parliament and the Auditor General for Scotland summarising the results of the audit of the annual accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Exhibit 2

2016/17 Audit outputs

Audit Output	Target date	Audit Committee Date
Annual Audit Plan	4 February 2017	23 February 2017
Interim Report to Management	21 April 2017	18 May 2017
Annual Audit Report including ISA 260 requirements	21 July 2017	17 August 2017
Signed Independent Auditor's Report	17 August 2017	17 August 2017

Audit fee

6. The proposed audit fee for the 2016/17 audit of SCRA is £31,320. In determining the audit fee we have taken account of the risk exposure of SCRA, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 2 June 2017.

7. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Responsibilities

Audit Committee and Accountable Officer

8. Audited bodies have 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 successfully deliver their objectives.

9. The audit of the financial statements does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

Appointed auditor

10. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

11. Auditors in the public sector give an independent opinion on the financial statements. 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.

Audit scope and timing

Financial statements

12. The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of SCRA and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how SCRA will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

13. We will give an opinion on the financial statements as to:

- whether they give a true and fair view in accordance with the Children's Hearing (Scotland) Act 2011 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2017 including its income and expenditure, for the year then ended
- whether they have been properly prepared in accordance with IFRS as adopted by the European Union, as interpreted and adapted by the 2016/17 FReM, the requirements of the Children's Hearing (Scotland) Act 2011 and directions made thereunder by the Scottish Ministers
- the regularity of the expenditure and income.

Materiality

14. Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for SCRA are set out in [Exhibit 3](#).



Exhibit 3

Materiality values

Materiality level	Amount
Planning materiality - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 2017 based on the budget for 2016/17.	£217,000
Performance materiality - 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 calculated performance materiality at 75% of planning materiality.	£163,000
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 5% of planning materiality rounded to a memorable numeric.	£11,000

15. We review and report on other information published with the financial statements including the Performance Report and Accountability Report. Any issue identified will be reported to the Audit Committee.

Timetable

16. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit Committee dates:

Exhibit 4

Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited financial statements with complete working papers package	2 June 2017
Latest date for final clearance meeting with Director of Finance	28 June 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 requirements to those charged with governance	21 July 2017
Independent auditor's report signed	17 August 2017

Internal audit

17. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by Scott Moncrieff.

Adequacy of Internal Audit

18. Overall, we concluded that the internal audit service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

Areas of reliance

19. In respect of our wider dimension audit responsibilities we also plan to consider other areas of internal audit work including:

- Income and Receivables
- Treasury and Cash Management
- Efficiency Savings
- Risk Management
- Performance Management
- Workforce Planning
- Information Governance.

Audit dimensions

20. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

Exhibit 5

Audit dimensions



Financial sustainability

21. 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 the body's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether SCRA can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Financial management

22. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether SCRA has arrangements in place to ensure systems of internal control are operating effectively
- whether SCRA can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how SCRA has assured itself that its financial capacity and skills are appropriate
- whether SCRA has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Governance and transparency

23. 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. We will review, conclude and report on:

- whether SCRA can demonstrate that the governance arrangements in place are appropriate and operating effectively.
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports.
- the quality and timeliness of financial and performance reporting.

Value for money

24. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether:

- SCRA can provide evidence that it is demonstrating value for money in the use of its resources.
- SCRA can demonstrate that there is a clear link between money spent, output and outcomes delivered.
- SCRA can demonstrate that outcomes are improving.
- There is sufficient focus on improvement and the pace of it.

Strategic plan for the five year appointment

25. As part of our responsibility to report on the audit dimensions over the current audit appointment we have identified the following areas of proposed audit work (this will be subject to annual review):

Exhibit 6 Strategic plan

Dimension	2016/17	2017/18	2018/19 to 2020/21
Financial sustainability			Financial Planning
Financial management		Financial Governance and Resource Management	
Governance and transparency	Role of Boards follow up		
Value for money			<i>To discuss with management</i>

Independence and objectivity

26. Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. 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 in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.

27. The engagement lead for SCRA is David Jamieson, 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 SCRA.

Quality control

28. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is 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.

29. 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 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, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

30. 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.

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