

# Scottish Children's Reporter Administration

2020/21 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Scottish Children's Reporter Administration and the Auditor General  
for Scotland September 2021



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# Key messages

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## 2020/21 annual report and accounts

The Scottish Children's Reporter Administration'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

The SCRA has a medium-term financial strategy but needs to ensure that it fully reflects the forward impact of Covid-19 on the Corporate Plan

The general fund balance has reduced significantly in recent years and now stands at a deficit position of £9.6 million. This restricts the capacity of the SCRA to respond to unplanned cost pressures.

The SCRA net liabilities position has increased significantly due to movements in the IAS19 pension liability.

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# Introduction

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1. This report summarises the findings from our 2020/21 audit of the Scottish Children's Reporter Administration (SCRA)
2. The scope of our audit was set out in our Annual Audit Plan presented to the 20 May 2021 meeting of the Audit and Risk Committee. This report comprises the findings from:
  - an audit of the SCRA's annual accounts
  - our consideration of financial sustainability
3. The global coronavirus pandemic has had a considerable impact on the SCRA during 2020/21. This has had significant implications not least for the services it delivers as Hearings were moved to a virtual environment but also for staff who had to adapt to new, remote, ways of working and the health and well-being challenges created by the pandemic. Risks related to the pandemic were included in our AAP, and we have adapted our planned audit work to address any new emerging risks

## Adding value through the audit

4. We add value to the SCRA 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 the SCRA promote improved standards of governance, better management and decision making and more effective use of resources.

## Responsibilities and reporting

6. The SCRA 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. The SCRA 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 £33,680 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 the SCRA 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

The Scottish Children's Reporter Administration'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 22 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 7 June 2021. Although this delay was agreed with the Head of Finance & Resources on 25<sup>th</sup> May it was a week later than our agreed audit timetable on 1 June 2021.

16. The unaudited annual report and accounts provided for audit were not fully complete but of a good standard which allowed 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 £0.430 million

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	£0.430 million
Performance materiality	£0.322 million
Reporting threshold	£21 thousand

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 £50,409 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 £50,409

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.** The adjustments made in the audited accounts related to a misclassification between lines and did not impact on net expenditure in the Statement of Comprehensive Net Expenditure or net assets in the Statement of Financial Position.

**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. There were no 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.** The SCRA's land and buildings undergo a full external revaluation every 5 years. The full estate was valued on an open market basis at 31 March 2020 by independent Royal Institution of Chartered Surveyors (RICS) registered valuers Rydens LLP. At that time the Valuer reported that there may be a reduced level of certainty that can be attached to the valuation due to inconsistency; the absence of empirical data; or the valuer being faced with an unprecedented set of circumstances on which to base judgement. This was as a result of the COVID-19 pandemic.

**25.** On the advice of the valuer a further valuation exercise was undertaken to determine property values at 31 March 2021. Due to Covid-19 restrictions this was undertaken as a desktop review. The review did not indicate a material variation in values from those of the prior year. However, the valuer has again highlighted that there may be a reduced level of certainty that can be attached to the valuation and recommended that a review of the valuation is undertaken in the next 12 months.

**26.** The valuation of the SCRA's estate is susceptible to change due to the ongoing impact of Covid-19. There is consequently a risk that the valuation of property is inaccurate.

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### **Recommendation 1**

The SCRA should review the advice of the valuer and consider requesting a further valuation of land and buildings as 31 March 2022. ([Appendix 1](#))

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**27.** 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 2**

The SCRA 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**

**28.** The SCRA has made good progress in implementing our prior year audit recommendations. All actions have been implemented.

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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

The SCRA has a medium-term financial strategy but needs to ensure that it fully reflects the forward impact of Covid-19 on the Corporate Plan.

The general fund balance has reduced significantly in recent years and now stands at a deficit position of £9.6 million. This restricts the capacity of the SCRA to respond to unplanned cost pressures.

The SCRA net liabilities position has increased significantly due to movements in the IAS19 pension liability.

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## The SCRA has a medium-term financial plan, but needs to ensure that it fully reflects the forward impact of Covid-19

**29.** 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.

**30.** The SCRA has a five-year financial strategy in place covering financial years 2021/22 to 2025/26. The strategy highlights the challenges of future operational and legislative developments arising from the United Nations Convention on the Rights of the Child, the implementation of The Promise, referral of 16 and 17-year-olds, changes to the Age of Criminal Responsibility Act and the introduction of advocacy services in Hearings.

**31.** The strategy requires savings of 1.5% in each of the 5 years and forecasts required Grant in Aid increases of 3.2% in 2021/22, 2.7% in 2022/23, 2.6% in 2023/24, 2024/25 and 2.5% in 2025/26. The strategy also considers different funding scenarios along with potential options to address any forecast funding gaps.

**32.** The Financial Strategy was approved by the Board in June 2020 and underpins the Corporate Plan 2020-23. Since that time the impact of the on-going Covid-19 pandemic and the resulting restrictions have been significant for the SCRA. Updated five-year financial requirements were noted by the Board in March 2021.

**33.** The Scottish Government provided additional resource funding of £0.748m in 2020/21 to support Covid-19 recovery plans. The availability of these additional funds in future years cannot be guaranteed. However, the financial impact of Covid-19 and the implementation of recovery plans may continue for some time.

**34.** There is a risk that, as the SCRA enters the business recovery stage the impact of Covid-19 may adversely affect the financial strategy.

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### Recommendation 3

The assumptions and projections within the financial strategy should be reviewed to ensure that they continue to support delivery of the Corporate Plan 2020-2023 in the post Covid-19 environment. ([Appendix 1](#))

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**35.** The general fund provides a pool of funds set aside for future use. A deficit balance restricts the organisation's capacity to respond to unplanned cost pressures. The financial statements show that in recent years the balance on the SCRA's general fund has reduced significantly, falling from a deficit position of £0.4 million at 31 March 2017 to a deficit of £9.6 million at 31 March 2021.

**36.** The decrease is largely due to two areas of expenditure: depreciation and amortisation and pension scheme costs. These amounts are not funded through grant in aid but have a direct impact on the general fund balance each year.

**37.** The Statement of Financial Position shows the net liabilities position has increased to £51.398 million (2019/20 £27.545 million). This is principally due to the actuarial loss on pensions (£22.278 million) reported in year in accordance with IAS19.

### National performance audit reports

**38.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Appendix 3 highlights a number of the reports published in 2020/21.

# Appendix 1. Action plan 2020/21

## 2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Impact of Covid19 on the valuation of land and buildings</b></p> <p>The SCRA's land and buildings undergo a full external revaluation every 5 years. The full estate was valued on an open market basis at 31 March 2020 by independent Royal Institution of Chartered Surveyors (RICS) registered valuers Rydens LLP. At that time the Valuer reported that there may be a reduced level of certainty that can be attached to the valuation due to inconsistency; the absence of empirical data; or the valuer being faced with an unprecedented set of circumstances on which to base judgement. This was as a result of the COVID-19 pandemic.</p> <p>On the advice of the valuer a further valuation exercise was undertaken to determine property values at 31 March 2021. Due to Covid-19 restrictions this was undertaken as a desktop review. The review did not indicate a material variation in values from those of the prior year. However, the valuer has again highlighted that</p>	<p>The SCRA should review the advice of the valuer and consider requesting a further valuation of land and buildings as 31 March 2022.</p> <p><a href="#">Paragraph 24.</a></p>	<p>The advice from the valuer will be reviewed and consideration will be given to requesting a further valuation of land and buildings as at 31 March 2022.</p> <p>Responsible officer Head of Finance and Resources</p> <p>Agreed date December 2021</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>there may be a reduced level of certainty that can be attached to the valuation and recommended that a review of the valuation is undertaken in the next 12 months.</p> <p>Risk - The valuation of the SCRA's estate is susceptible to change due to the ongoing impact of Covid-19. There is consequently a risk that the valuation of property is inaccurate.</p>		
<p><b>2. 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>The SCRA 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 0</a></p>	<p>Reconciliations between the key financial systems and the general ledger will be prepared and reviewed monthly.</p> <p>Responsible officer Finance Manager</p> <p>Agreed date September 2021</p>
<p><b>3. The impact of Covid-19 on the SCRA Financial Strategy</b></p> <p>The Financial Strategy was approved by the Board in June 2020 and underpins the Corporate Plan 2020-23. Since that time the impact of the on-going Covid-19 pandemic and the resulting restrictions have been significant for the SCRA.</p> <p>The Scottish Government provided additional resource funding of £0.6m in 2020/21 to support Covid-19 recovery plans. The availability of these additional funds in future years cannot be</p>	<p>The assumptions and projections within the financial strategy should be reviewed to ensure that they continue to support delivery of the Corporate Plan 2020-2023 in the post Covid-19 environment</p> <p><a href="#">Paragraph 32.</a></p>	<p>The assumptions and projects with the financial strategy will be reviewed to ensure that they continue to support delivery of the Corporate Plan 2020-2023 in the post Covid-19 environment.</p> <p>Responsible officer Head of Finance and Resources</p> <p>Agreed date September 2021</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>guaranteed. However, the financial impact of Covid-19 and the implementation of recovery plans may continue for some time.</p> <p>Risk – There is a risk that, as the SCRA enters the business recovery stage the impact of Covid-19 may adversely affect the Financial Strategy</p>		

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# 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 caused by management override of controls</b></p> <p>Although we have not identified any specific risks of management override of control at SCRA, 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 the SCRA.</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>

### Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p><b>3. Financial sustainability</b></p> <p>The financial statements show that in recent years there has been a significant reduction in SCRA's General Fund, falling from a deficit position of £0.4million at 31 March 2017 to a deficit of £7.7 million at 31 March 2020.</p> <p>This is mainly due to two areas of expenditure – depreciation / amortisation and pension scheme costs. These amounts are not funded through Grant-In-Aid.</p>	<p>Financial planning process in place with regular updates of five-year financial plan.</p> <p>Budget monitoring process in place with regular forecast presented to Board.</p> <p>Assurances from the Scottish Government on financial stability.</p>	<p>Regarding the reduction in the General Fund, this is due to depreciation and amortisation and pension scheme costs. The SCRA has received updated comfort from the Scottish Government in this area (May 2020).</p> <p>We have identified that the SCRA should review its Financial Strategy to assess the impact of Covid-19 on future plans and have made a recommendation in our report.</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](#)

# The Scottish Children's Reporter Administration

## 2020/21 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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