



# Office of the Scottish Charity Regulator

2015/16 Annual audit  
report to Members and  
the Auditor General for  
Scotland

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Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively ([www.audit-scotland.gov.uk/about/](http://www.audit-scotland.gov.uk/about/)).

David McConnell, Assistant Director, Audit Scotland is the appointed external auditor of the Office of the Scottish Charity for the period 2011/12 to 2015/16.

This report has been prepared for the use of the Office of the Scottish Charity Regulator and no responsibility to any member or officer in their individual capacity or any third party is accepted.

The information in it may be used by the Auditor General in support of her wider responsibilities, including reporting to the Scottish Parliament.

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# Key messages

## Audit of financial statements

- Unqualified independent auditor's report on the 2015/16 financial statements.
- Working papers were of a high standard and officers provided excellent support which enabled the audit team to complete fieldwork by the planned target date.
- An audit adjustment of £9,000 within property, plant and equipment (PPE) resulted in a reduction in the 2015/16 disposals and a restatement of the 2014/15 PPE note. This had no effect on the statement of financial position.

## Financial Position

- Financial management arrangements are strong and soundly based.
- The actual outturn annual for 2015/16 was £2.936 million against the resource outturn budget of £2.997 million resulting in an underspend of £0.061 million.

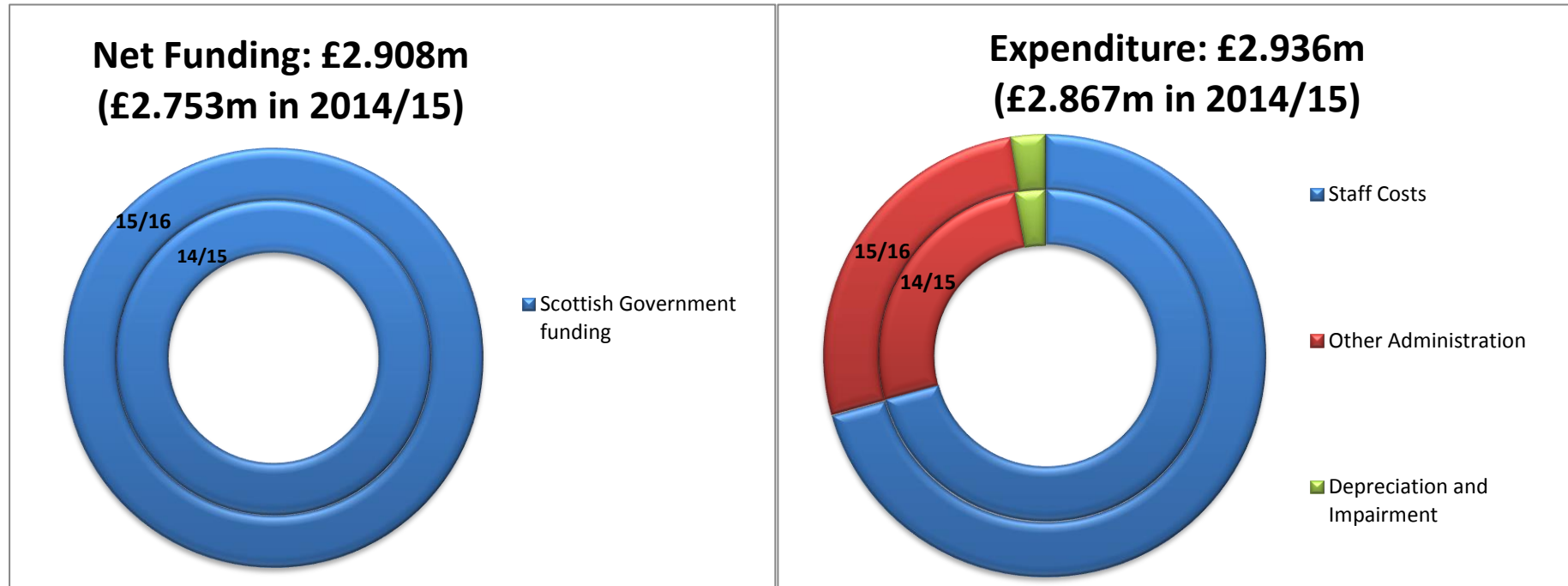
## Governance & accountability

- Office of the Scottish Charity Regulator (OSCR) has sound and well established governance arrangements in place.
- Systems of internal control operated effectively during the year.
- OSCR has an effective internal audit function and robust anti-fraud arrangements in place.

# Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of the Office of the Scottish Charity Regulator (OSCR).
2. The management of OSCR are responsible for:
  - acting within the law and ensuring the regularity of transactions by putting in place appropriate systems of internal control
  - maintaining proper accounting records
  - preparing financial statements timeously which give a true and fair view of the financial position of OSCR as at 31 March 2016 and its expenditure and income for the year then ended
  - publishing with their financial statements an annual report, comprising a performance report and accountability report.
3. Our responsibility, as the external auditor, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management with the oversight of those charged with governance. This does not relieve management of their responsibility for the preparation of financial statements.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports are summarised at **appendices II and III**. In the context of this Annual Audit Report we have no specific high level risks to report from our audit.
6. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
7. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.
8. 2015/16 is the final year of the current five year audit appointment. From 2016/17 the auditor of OSCR will be Grant Thornton. In accordance with agreed protocols and International Standards on Auditing we will be liaising with Grant Thornton as the incoming auditors as part of this transition.

# Audit of the 2015/16 financial statements



The financial statements show that Scottish Government net funding for 2015/16 has increased by approximately £0.100 million from £2.8 million to £2.9 million. Net expenditure in 2015/16 was approximately £2.9 million which was also the same as 2014/15.

# Audit opinions

## Financial Statements

- The financial statements of OSCR for 2015/16 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.
- We confirm that the financial statements have been properly prepared in accordance with the 2015/16 FReM and the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions.

## Regularity

- In all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance.
- The sums paid out of the Scottish Consolidated Fund were applied in accordance with section 65 of the Scotland Act 1998.

## Other prescribed matters

- The part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.
- The information given in the Performance Report of the Annual Report is consistent with the financial statements.

## Submission of financial statements for audit

9. We received the unaudited financial statements on 9 May 2016, in accordance with the agreed timetable. The working papers were of a high standard and staff provided excellent support to the audit team which enabled us to complete our fieldwork by the planned target date of 20 May 2016.

## Overview of the scope of the audit of the financial statements

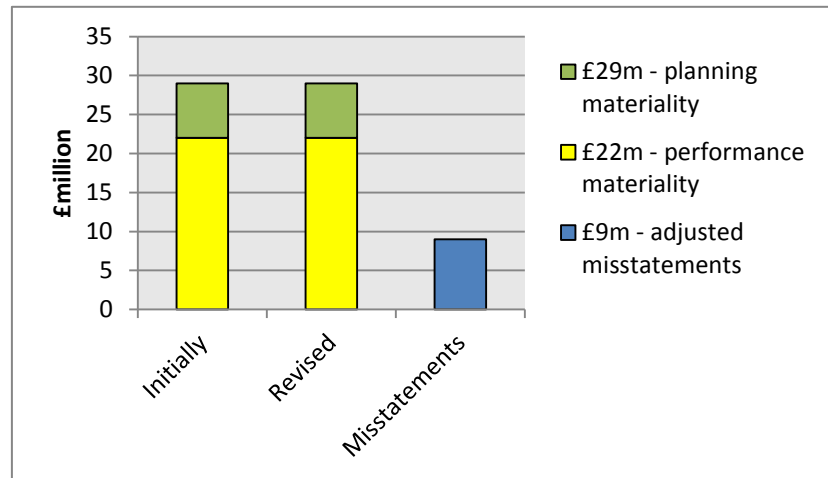
10. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan which was presented to the Audit Committee on 19 February 2016.
11. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken any non-audit related services. The 2015/16 agreed fee for the audit was £12,100 and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
12. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance.

13. **Appendix I** sets out the financial statements risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.
14. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

## Materiality

15. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
16. We summarised our approach to materiality in our Annual Audit Plan. On receipt of the unaudited financial statements, we reviewed our materiality levels and concluded that our original calculation of £29,000 remained appropriate (1% of net operating cost).
17. We also set a lower level, known as performance materiality, when defining our audit procedures. This is determined to ensure that uncorrected and undetected audit differences do not exceed our materiality level. Performance materiality was set at £22,000 (i.e. 75% of materiality). We report all misstatements greater than £1,000.

**Exhibit 1: Overall materiality misstatements**



Source: 2015/16 Annual Audit Plan and Draft Annual Report and Accounts

**Evaluation of misstatements**

- 18. One monetary adjustment to the unaudited financial statements was identified. During discussions with officers on the disposals detailed within Note 8 – Property, plant and equipment (PPE) it was noted that £9,000 of the information technology disposals were actually disposed of in 2014/15. This results in a restatement of the 2014/15 closing Note 8 (PPE) balance and the opening balances for 2015/16. There was no effect to the Property, Plant and Equipment within the Statement of Financial Position.
- 19. Management made this adjustment in the audited accounts. There are no unadjusted errors to report.

**Significant findings from the audit**

- 20. International Standard on Auditing 260 (ISA 260) requires us to communicate to you significant findings from the audit as detailed below:
  - the auditor’s views about significant qualitative aspects of the entity’s accounting practices, including accounting policies, accounting estimates and disclosures
  - significant difficulties encountered during the audit
  - significant matters arising from the audit that were discussed, or subject to correspondence with management
  - written representations requested by the auditor
  - other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
- 21. A number of minor presentational and disclosure adjustments were identified during the course of the audit. These were discussed with the Head of Support Services who agreed to amend the financial statements. We do not deem any of these amendments significant enough to report separately.
- 22. The following table details those issues or audit judgements that, in our view, do require to be communicated to those charged with governance in accordance with ISA 260.



Table 1: Significant findings from the audit

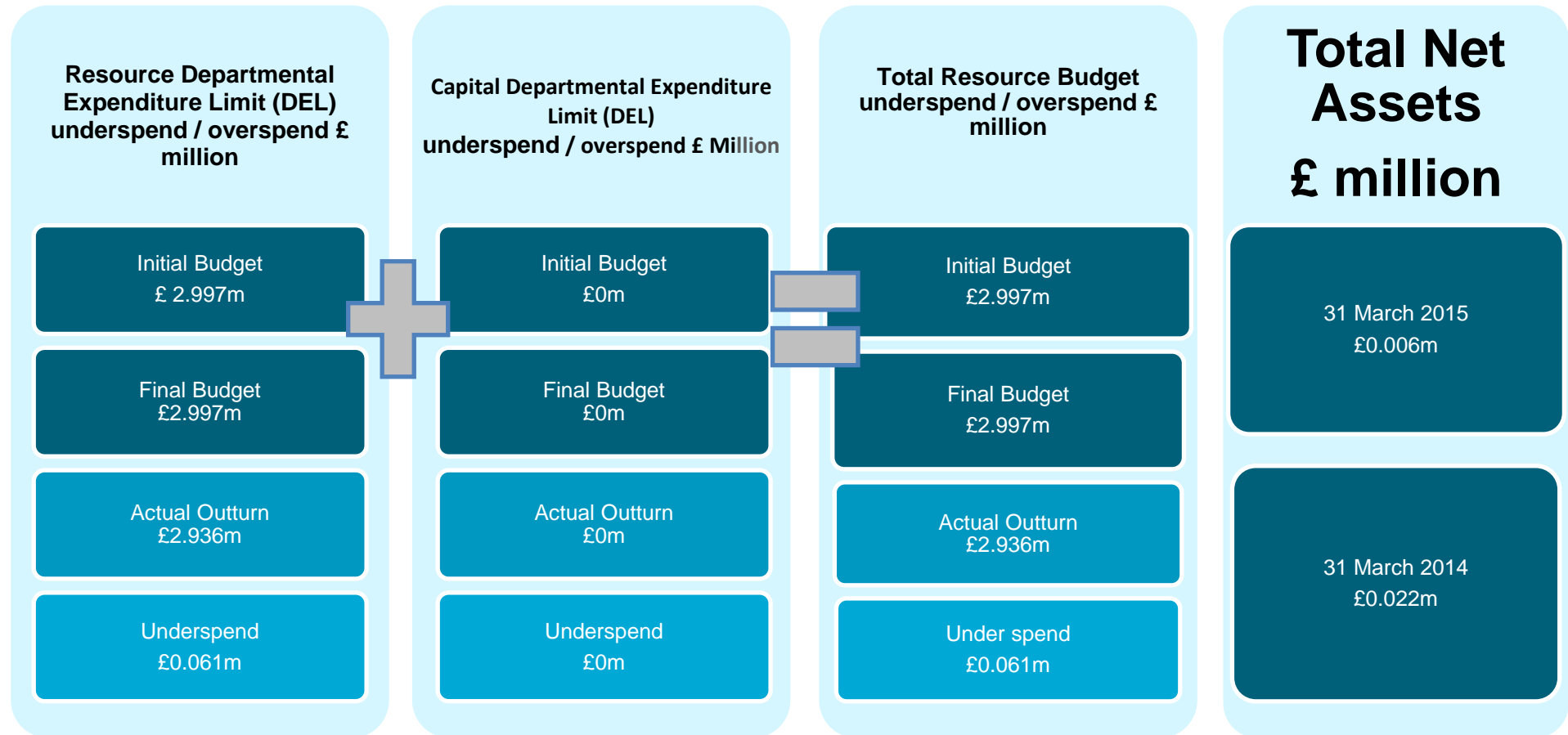
**Significant findings from the audit in accordance with ISA260****Assurances provided to Accountable Officer**

23. The Chief Executive needs to obtain assurances from his Heads of Service and also externally from the Scottish Government to enable him to sign the 2015/16 financial statements as the Accountable Officer at the certification date. However, it was noted that the internal assurance certificate from the Head of Registration, who left the organisation on 31 March 2016, was not signed off. The certificates of assurance from Scottish Government (Finance and Human Resources) are still outstanding. This may result in a delay in signing off the OSCR Annual Report and Accounts.

**Pension information from MyCSP**

24. The pension information from MyCSP is still outstanding and we are unable to finalise our audit of the remuneration and staff report within the management commentary. This may result in a delay to the signing of the Audit Report and the OSCR Annual Report and Accounts.

# Financial management and sustainability



25. The main financial objective for OSCR is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers.

## 2015/16 financial position

26. The Scottish Government sets a resource budget for the year for OSCR which originates from the spending review settlement and is subsequently approved in the Budget Bill. During the year, any revisions are approved in the autumn and spring. OSCR is expected to manage its budget in accordance with its framework agreement with the Scottish Government.

27. OSCR received a final total resource budget of £2.997 million for 2015/16 which was made up entirely of revenue funding as detailed above.

28. Spending on operating costs was within the final budget set, mainly as a result of in-year expenditure monitoring where budget adjustments, slippages and efficiencies have been used to balance within the overall allocation. We have concluded that OSCR budget setting and monitoring arrangements are satisfactory, and we noted that senior management and the Board received up to date monitoring reports timeously.

29. The Statement of Financial Position at 31 March 2016 shows net assets of £6,000.

30. The financial position of OSCR remains stable with the body operating within its available funding (on an accounting and resource basis).

## Financial Planning

31. The Scottish Government is OSCR's primary source of income. This results in a greater degree of certainty over its future funding streams than for some other public sector organisations who are involved in income generating activities. Therefore, the main focus for OSCR is achieving a balanced financial plan to remain within their annual allocation.

## Financial management

32. As auditors we need to consider whether bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:

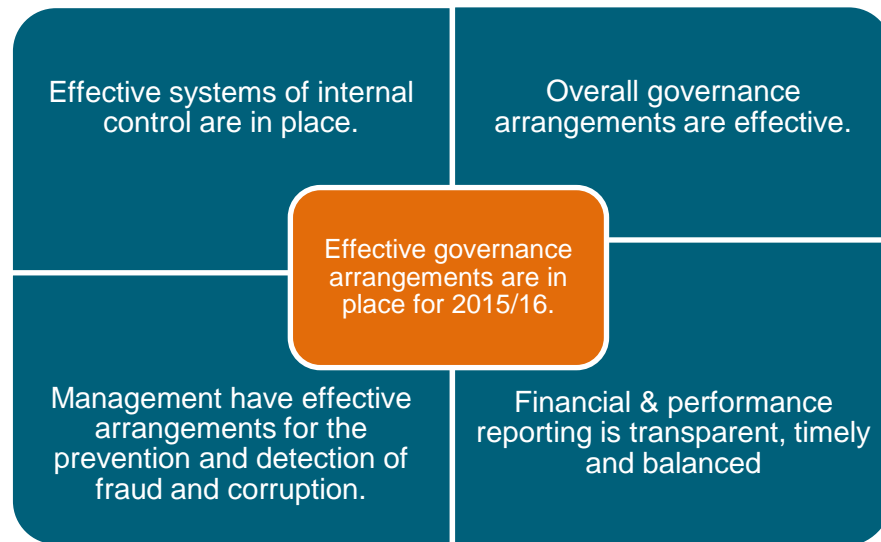
- the officer responsible for finance (Head of Support Services) has sufficient status to be able to deliver good financial management
- standing financial instructions and standing orders are comprehensive, current and promoted within the body
- reports monitoring performance against budgets are accurate and provided regularly to budget holders
- monitoring reports do not just contain financial data but are linked to information about performance

- audit committee members provide a good level of challenge and question significant variances.
33. Based on our accumulated knowledge, our review of board papers and through our attendance at the Audit Committee we conclude that OSCR has strong financial management arrangements in place.

### 2016/17 budget

34. OSCR's Scottish Government funding allocation for 2016/17 of £3 million is consistent with the funding allocated in 2015/16. A balanced budget of income and expenditure is projected for a 3 year period to 2018 based on continuing Scottish Government funding.

# Governance and transparency



## Corporate governance

35. The Board and Chief Executive (as Accountable Officer) are responsible for establishing arrangements for ensuring the proper conduct of the affairs of OSCR for monitoring the adequacy of these arrangements.
36. The members of the Board are appointed by the Scottish Ministers. The Board is supported in its role by the Audit Committee.

37. The members of the Board and Audit Committee meet on a quarterly basis throughout the year to consider relevant matters.
38. We concluded that OSCR has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

## Transparency

39. The Scottish Government's On Board guidance (<http://www.gov.scot/Publications/2015/04/9736/0>) for board members of public bodies was updated and reissued in April 2015. On Board states that boards should demonstrate high standards of corporate governance at all times including openness and transparency in decision making. It recommends boards should consider:
  - holding an annual open meeting
  - holding board meetings in public unless there is a good reason not to
  - publishing summary reports and/or minutes of meetings
  - inviting evidence from members of the public in relation to matters of public concern
  - consulting stakeholders and users on a wide range of issues
  - making corporate plans and the annual report widely available.
40. Audit Scotland also believes in transparency of financial reporting within the Annual Report and Accounts including:

- a clear reconciliation between expenditure and the outturn against Scottish Government Resource budgets
  - identification and explanation of any significant movements in budget during the year.
41. The financial statements include a table showing OSCR's outturn against budget and a reconciliation of net resource outturn to net cash requirement in 2015/16. The Performance Report also includes an overview of the financial performance for the year.
42. Together with the annual accounts, OSCR also publishes a comprehensive annual report which includes performance against its key indicators. We consider this provides a fair and balanced view of activities for the year.
43. Due to the confidential nature of the information discussed at board and committee meetings members of the public cannot attend these meetings, but have access to board and committee papers on the internet as well as the registers of interest.

## Internal control

44. No material weaknesses in the accounting and internal control systems were identified during the 2015/16 audit which could adversely affect the organisation's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

## Internal audit

45. Internal audit provides the Audit Committee and Accountable Officer with independent assurance on the overall risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.
46. As part of our risk assessment and planning process we assessed the Scottish Government Internal Audit Division (OSCR's internal auditors) and concluded that they operate in accordance with the Public Sector Internal Audit Standards (PSIAS). This enabled us to place reliance on the work of internal audit, in terms of our wider code responsibilities: change management and Information assurance and records management.

## Arrangements for the prevention and detection of fraud

47. OSCR is responsible for establishing arrangements to prevent and detect fraud and other irregularity. We reviewed and reported on these arrangements and have concluded that there are effective arrangements for the prevention and detection of fraud.

## National Fraud Initiative in Scotland

48. OSCR participates in the National Fraud Initiative (NFI) through the Scottish Government Finance Division. The NFI uses electronic data analysis techniques to compare information held on individuals by different public sector bodies and different financial systems, to identify data matches that might indicate the existence of fraud or error.
49. As the Scottish Government does not hold a separate record of data matches relating specifically to OSCR, we have not been able to establish the number of data matches identified for investigation. However, OSCR has not been notified of any issues by the Scottish Government in relation to their matches.

## Arrangements for maintaining standards of conduct and the prevention and detection of corruption

50. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. We consider whether bodies have adequate arrangements in place and have concluded that appropriate arrangements exist within OSCR.

# Appendix I: Significant audit risks

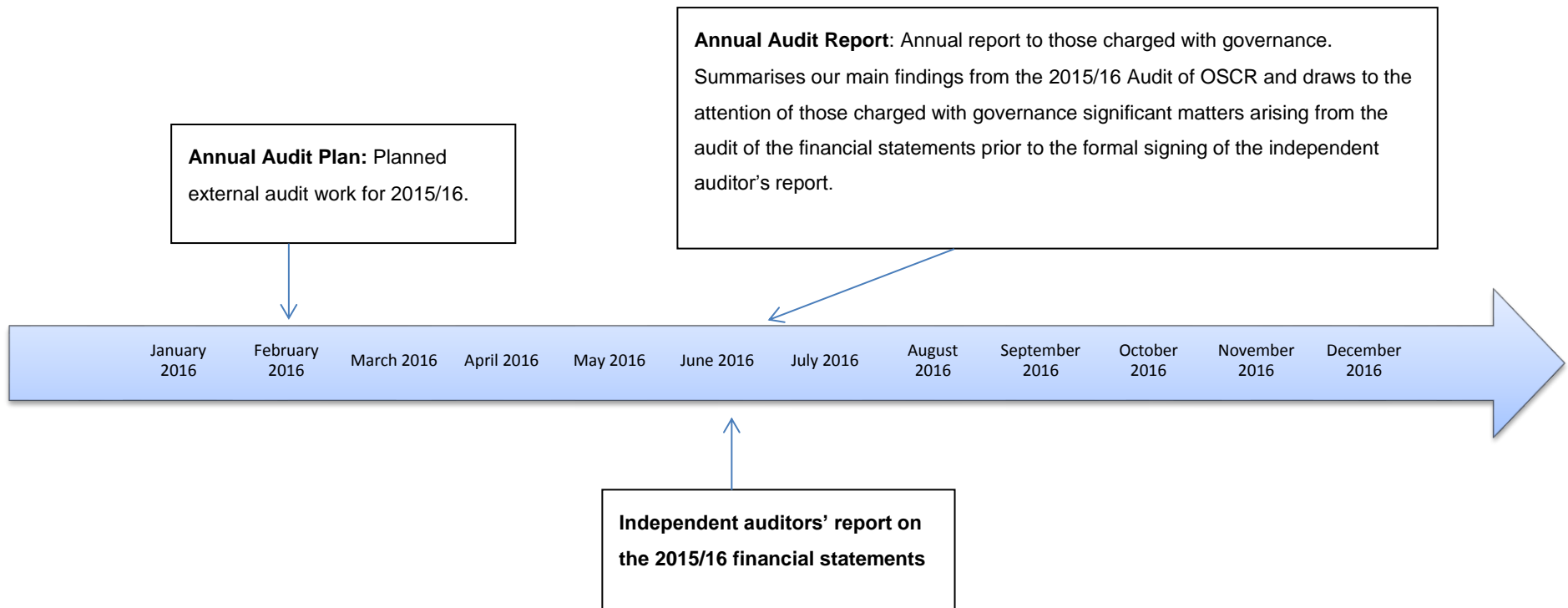
The table below sets out the audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
<b>Risk of material misstatement</b>		
<p><b>Changes to the 2015/16 FReM</b></p> <p>The 2015/16 FReM contains changes that will require action by officers to ensure they are fully reflected in the 2015/16 unaudited financial statements.</p> <p><i><b>There may be ongoing issues with the financial statements provided for audit and they may require additional resource and effort from both audit and OSCR staff to ensure compliance with the FReM.</b></i></p>	<ul style="list-style-type: none"> <li>• We met with OSCR in February 2016 to discuss the required changes and their proposals for the revised annual report layout and content.</li> <li>• We reviewed the annual report included within the unaudited financial statements against the requirements of the 2015/16 FReM as part of the financial statements audit.</li> </ul>	<p>Our review did not identify any significant departures from the requirements of the 2015/16 FReM. However, a number of minor presentational and disclosure adjustments to the Annual Report were identified to ensure this reflected the disclosure requirements set out for the new Performance Report and Accountability Report sections. OSCR reflected the required changes in the final version of the accounts.</p> <p><b>Satisfactory</b></p>



Audit Risk	Assurance procedure	Results and conclusions
<p><b>Risk of management override of control</b></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>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Evaluation of any significant transactions that are outside the normal course of business.</li> </ul>	<p>Our testing did not identify any instances of management override of controls during 2015/16.</p> <p><b>Satisfactory</b></p>
<p><b>Pension Benefit Information</b></p> <p>OSCR should liaise with the DWP regarding timescales for receiving pension benefit information for 2015/16.</p> <p><i>If the pension benefit information is not made available in a timely manner, this may result in a delay in completing the remuneration report and signing off OSCR's annual report and accounts.</i></p>	<ul style="list-style-type: none"> <li>• OSCR staff to liaise with the Scottish Government and DWP.</li> </ul>	<p>OSCR received the pension benefit information on xx June 2016 and this has been disclosed correctly in the 2015/16 Annual Report and Accounts.</p> <p><b>Satisfactory</b></p>

# Appendix II: Summary of local audit reports 2015/16



# Appendix III: Summary of Audit Scotland national reports 2015/16

