

The Office of the Scottish Charity  
Regulator (OSCR)  
External Audit Annual Report to the  
Accountable Officer and the Auditor General  
for Scotland

2016/17 Financial Year

21 June 2017



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## Summary of our audit plan:

Materiality has been updated based on draft financial statements to £29,000 (1% of gross 2016/17 expenditure)

Performance materiality is set at £19,000 and we have reported to management everything identified over £1,450

We rebutted the risk of fraud in revenue recognition as all income comes direct from the Scottish Government. Audit risks were: management override of controls; risk of fraud in expenditure; and completeness of employee remuneration

We determined OSCR fell under the smaller body classification in relation to wider scope so focused on going concern; financial sustainability; the “front end” of the accounts and governance

We can confirm we are independent of the Office of the Scottish Charity Regulator (OSCR) and our objectivity is not compromised in accordance with International standards on Auditing (UK & Ireland) and APB ethical standards for Auditors. No non-audit services have been provided to OSCR in 2016/17 and our fee was as agreed and set out in our audit plan.

# Key Messages

We have issued an unqualified opinion on:

- True and fair view of the financial statements
- Regularity
- Other prescribed matters

This report is a summary of our findings from our external audit work for the financial year ended March 2017. Our work has been undertaken in accordance with International Standards on Auditing (UK & Ireland) and the Code of Audit Practice (2016).

Our report is addressed to the Accountable Officer (in their role as set out by Scottish Ministers) and the Auditor General for Scotland. This report will be published on the Audit Scotland website at: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

This report has been discussed and agreed with management, and presented to the Audit Committee on 9 June 2017. The report was then presented to the Board on 21 June 2017 alongside the final accounts for Board discussion. Following the discussion at the Board the Accountable Officer signed the annual report and accounts.

We would like to thank management and staff for their co-operation and assistance throughout our audit work.

## Our work included:

- An audit of the 2016/17 Annual report and accounts
- A review of the Performance Report and Accountability Report (including governance statement and remuneration report)
- Completion of the 'Role of Board's' return submitted to Audit Scotland to inform a future performance publication

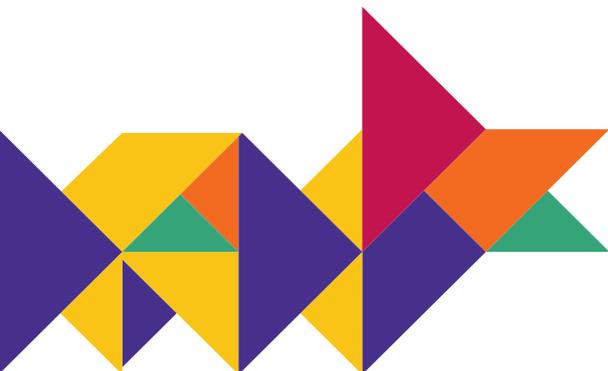
Overall an efficient audit process was achieved, with a good draft annual report and accounts received in line with our agreed timetable. Similar to previous years, the receipt of the employee benefits information was late on in the audit process, and this is out with the control of OSCR. The working papers supporting the financial numbers were clear and easy to follow.

We set out in our audit plan that OSCR fell under the smaller body classification in the Code of Audit Practice and therefore the wider scope audit requirements do not apply. This has not changed.

However, as set out in the Code of Audit Practice we have commented on OSCR's going concern arrangements and future financial sustainability; as well as certain aspects of OSCR's organisational arrangements.

For and behalf of Grant Thornton UK LLP

21 June 2017



# The Financial Statements Audit



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Our audit plan was presented to the Audit Committee in March 2017. We have not altered our planned audit approach as set out in the plan. However, we have updated our final materiality figures based on the draft 2016/17 accounts (was £29,360 in our plan, and based on the unaudited accounts for 2016/17 materiality was calculated as £29,000).

Our audit work commenced onsite on 8 May and we received a complete set of the annual report and accounts on 9 May. The supporting working papers were easy to follow and our queries were answered promptly. The annual report and accounts are prepared by Scottish Social Services Council who translate the financial numbers into the annual accounts template; which is then reviewed by OSCR and OSCR retain responsibility for all narrative elements and extracting the numbers from the ledger. It is clear the annual reports and accounts had been subject to management review and challenge by the time our year-end work commenced.

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## Internal Control Environment

During the year we have sought to understand OSCRs overall control environment as related to the annual report and accounts. In particular we have:

- Considered procedures and controls around related parties, journal entries and other key entity level controls
- Performed certain procedures around IT general controls
- Performed walkthrough procedures on key controls around identified risk areas.

No material weaknesses in the accounting and internal control systems were identified during the audit which could have an adverse impact on OSCR'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.

Under ISA's we are required we are required to report to those charged with governance the main issues arising from our audit of the Annual Accounts and Report.

This report discharges our obligations under the relevant ISA's.

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## Internal Audit

As set out in our plan we have not placed formal reliance on the work of Internal Audit during 2016/17. Internal Audit is provided to OSCR by the Scottish Government in-house internal audit team. The overall input by internal audit is focused on key areas of control. This is reflective of the risk profile of OSCR and the nature of assurance provided by internal audit over the previous years e.g. substantive assurance.

We have reviewed the internal audit plan, and the 5 internal reports completed during the year. These reports are considered by the OSCR Audit Committee throughout the year and agreed actions formally followed up.

Internal Audit's annual opinion for the year is "substantial assurance"

The findings of internal audit do not disagree with our knowledge and understanding of OSCR as an organisation and its risk profile. Internal Audit provide assurances to management and the OSCR Audit Committee that their services are Public Sector Internal Audit Standards (PSIAS) compliant, taking assurance from the wider PSIAS review of the Scottish Government Internal Audit function.

# Our identified audit risks

Our audit plan identified a number of significant and other audit risks and our planned approach. We have set out below a summary of the work undertaken over these risks and our conclusions.

Audit plan identified risk and work completed	Our conclusion
<p><b>Management override of controls</b></p> <p>Under ISA (UK&amp;I) 240 there is a recognition that the risk of management over-ride of controls is present in all entities (fraud risk).</p> <p><b>Work undertaken:</b></p> <p>Completed a walkthrough of the controls and procedures in place around journal entries</p> <p>Reviewed the key accounting estimates, judgements and decisions made by management</p> <p>Tested journal entries with a focus on large and/or unusual values; posting sources; timing as identified using our IDEA data analysis software</p> <p>Reviewed unusual and/or significant transactions.</p>	<p><b>Key accounting estimates:</b> Given the nature of OSCR there are no key areas of accounting estimates within the annual accounts. They do not have provisions; and their office space is leased. This is in accordance with our expectations.</p> <p><b>Journals:</b> We made inquires of those members of staff who can post and authorise journals related to inappropriate or unusual activity with no concerns noted. We confirmed completeness of journals during the year. We targeted large and/or unusual journals and noted no issues from our testing. OSCR use the Scottish Government Accounting system (SEAS) and can post journals on behalf of OSCR. We have obtained assurance over these arrangements through the letter provided by Audit Scotland over the SEAS system, in their role as external auditor of the Scottish Government.</p> <p>Through our substantive audit testing we did not identify any significant transactions out with the normal course of business for OSCR.</p>
<p><b>Completeness of operating expenditure (fraud risk – practice note 10)</b></p> <p>Operating expenses are understated or not recorded in the correct period. As set out in practice note 10, auditors of public sector entities should consider the risk that fraud may occur by manipulation of expenditure recognition.</p> <p><b>Work undertaken:</b></p> <p>Substantive testing of operating expenditure including trade payables and accruals to verify complete and accuracy</p> <p>Cut off testing considering March 2017 and post year end April 2017 transactions</p> <p>Key reconciliations at year end to reconcile to the trial balance</p> <p>Testing of large and unusual balances</p>	<p>We did not identify any incorrect recording or classification of operating expenditure in the annual accounts based on our substantive audit testing.</p> <p>Our testing on cut off identified transactions sampled were treated in the correct period.</p> <p>Our testing confirmed expenditure recorded in the annual accounts was incurred in accordance with the purpose and nature of OSCR as an organisation and in accordance with relevant laws and regulations.</p>

Audit plan identified risk and work completed	Our conclusion
<p><b>Completeness of employee remuneration</b></p> <p>Employee costs are a large source of expenditure with a number of payroll transactions posted during the year that rely on numerous controls.</p> <p><b>Work undertaken:</b> We tested the payroll reconciliations throughout the year</p> <p>Payroll variance analytical review</p> <p>Detailed testing on the audited parts of the remuneration report agreeing salary information back to payroll and employee contracts.</p> <p>Sample testing of a number of employees back to payroll and employee contract records.</p>	<p>We have assessed the completeness of employee remuneration and have gained sufficient assurance over the payroll process to conclude that there are no material misstatements.</p> <p>We have reviewed the letter produced by Audit Scotland over the Scottish Government systems which OSCR use and have not identified any matters that impacted on our approach.</p> <p>Through our testing of employees we did not identify any issues.</p> <p>Similarly, our analytical review of employee remuneration including overall staff costs highlighted no issues of concern.</p>

# The narrative elements of your annual report and accounts

In accordance with our responsibilities we have reviewed your narrative aspects of the Annual Accounts and Report. We have considered the consistency of this narrative with our understanding of OSCR and the financial information set out in the accounts and have set out our observations below.

## Performance report

- The performance report includes the Chief Executive’s statement on performance which is clear and easy to read.
- The strategic objectives for OSCR are set out and this informs the structure of the statement
- Key issues and risks are well articulated and reflect the risks around: legislation; Funding; People and link to the OSCR risk register
- The report links to publically available information on OSCR’s website
- The report is consistent with our understanding of OSCR and in accordance with the FREM.

## Annual Governance Statement

- The Governance statement meets the requirements set out in the FREM.
- The governance report presents a good overview of the key governance arrangements in place within OSCR, including the arrangements for the Board and sub-committees; risk management framework.
- The statement explains the relationship and link between OSCR and the Scottish Government
- Underpinning this statement is the respective assurances the Accountable officer has received from the Directors and the Scottish Government

## Remuneration report

- The remuneration report has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by Scottish Ministers
- The identified senior managers have been correctly identified and reflected in the report
- We have audited the financial information included in the remuneration report (marked audited information). We have no matters we wish to bring to your attention.



# Judgements and estimates

We consider other aspects of your annual report and accounts, in particular key areas of judgement. We have summarised below our observations in these key areas:

## Accounting Policies

- Accounting policies are in accordance with the FREM and are consistent with prior years. The accounting policies were also approved by the Audit Committee in March 2017

## Accounting estimates and judgements

- OSCR's accounts do not contain significant judgements.
- We did not identify any issues in our audit testing related to cut off of transactions; and specific accounting decisions in relation to accruals and prepayments

## Going Concern

- OSCR has an agreed budget from the Scottish Government for 2017/18. OSCR fulfils a specific regulator role as the charity registrar; and this requirement is set out in various legislation. We have no reason to think this legislation will change.

## Timing of transactions and period in which they are recorded (Cut off assertion)

- Through our substantive audit testing we did not identify any concerns over timing of transactions or the period in which they were recorded.

## Impact on the financial statements of any uncertainties

- No uncertainties have been identified which have an impact on the final annual report and accounts.

# Overview of OSCR's arrangements



The main financial objective for OSCR is to ensure that the financial outturn for the year is within the budget allocated by Scottish Ministers which was £2.968 million for 2016/17. OSCR's net operating costs for the year were £2.865 million showing a small underspend in year of £0.103 million.

OSCR had no capital expenditure in year. A significant proportion of OSCR's expenditure in 2016/17 again relates to staff costs (£1.985 million/ 69% of total expenditure).

The Scottish Government sets a resource budget for the year for OSCR which comes originally from the spending review settlement and OSCR is expected to manage its budget in accordance with the framework agreed with the Scottish Government. During the year financial performance compared to budget is closely monitored and action taken to correct any adverse variances.

OSCR's only source of income is the Scottish Government funding. Whilst this gives, to a degree, a certainty over an annual financial settlement, which year on year has stayed the same to date it also limits OSCR's ability to invest in new areas for example digital; without reducing its cost base or considering efficiencies.

Given 69% of the cost base is staff there is currently little opportunities to consider further savings in this area, as the workforce is already lean and to further reduce costs here approval would be required by the Scottish Government for a Voluntary Early Release Scheme. In addition, it is anticipated as part of OSCR's budget setting for 2017/18 that a 1% pay increase will need to be managed.

We have agreed with OSCR's assessment that they can prepare their annual report and accounts on an going concern basis. However; recognising the small nature of OSCR as an organisation and its limited income source (Scottish Government) it will become increasingly difficult for OSCR to invest in the digital strategy and future plans without either additional income, or the ability to re-look at its cost base. **ACTION 1**

Based on our review of Board papers and minutes; and attending the Audit Committee we note that OSCR has good financial management arrangements and continues to focus on achieving year-on-year efficiency savings whilst recognising the small size of the organisation.

### Fraud; corruption and irregularity

OSCR has in place standing financial instructions; scheme of delegation and appropriate policies in respect of fraud, corruption and irregularity. During the year OSCR submitted a nil fraud return (nil in 2015/16) and have not detected any irregularities.

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## Governance arrangements

The members of the Board are appointed by the Scottish Ministers and the Board is supported in its role by an Audit Committee. Overall OSCR's governance arrangements are in line with our expectations and provide a suitable framework for decision making.

We have considered OSCR's high level governance arrangements against the Scottish Government's On Board guidance for Board members of public bodies. We note that all of OSCR's Board minutes and key documents are publically available on the website. However, due to the often confidential nature of the OSCR Board and Committee meetings these are not open to members of the public. Management should continue to review this arrangement to ensure that it continues to remain appropriate. Alternatively, they may wish to consider holding one meeting a year in public, depending on the nature of the agenda, to give members of the public an opportunity to attend and enhance openness and transparency. **ACTION 2**

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## Closer working with the Scottish Government

During the year OSCR's Chief Executive (and Accountable Officer) was on secondment 4 days a week for 6 months to the Scottish Government to support them with their digital strategy.

The Scottish Government met the salary costs of the Chief Executive for this period, which subsequently helped contribute to OSCR's small underspend in year on salary costs. This represented a good opportunity for the Chief Executive's personal development; but also for OSCR in relation to the synergy around OSCR's digital investment plans.

In this time period OSCR's Accountable Officer was still the Accountable Officer and fulfilled these duties one day a week, supported by the OSCR management team on the more operational day to day matters which are delegated to them. Based on our discussions and review of committee minutes we note over this period OSCR's governance arrangements continued to operate as intended.

This secondment demonstrated OSCR's capabilities of operating with a different management team structure for a period of time and confirmed its overall resilience as day to day activities continued to be carried out.

There may be further opportunities therefore that OSCR can explore with the Scottish Government where there is a clear knowledge and skills alignment and mutual benefit to both organisations. **ACTION 3**

Equally there may be greater opportunities for the Scottish Government to explore similar arrangements with other Central Government bodies to share skills; capacity and experience more widely across the Scottish Public Sector.

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# Audit adjustments

Set out below is a summary of uncorrected and corrected misstatements.

## Uncorrected misstatements

There were no uncorrected misstatements in the annual report and accounts.

## Corrected misstatements

There were no corrected misstatements in the annual report and accounts following our audit work.

## Disclosure misstatements

In accordance with auditing standards we are required to highlight significant disclosure misstatements to allow audit committees to evaluate the impact of these matters on the financial statements. During the course of our audit process we identified some minor disclosure enhancements to the performance and accountability reports and the annual accounts

All recommended disclosure changes have been processed in the final audited annual report and accounts.

There were no material/significant disclosure misstatements identified we wish to bring to your attention.



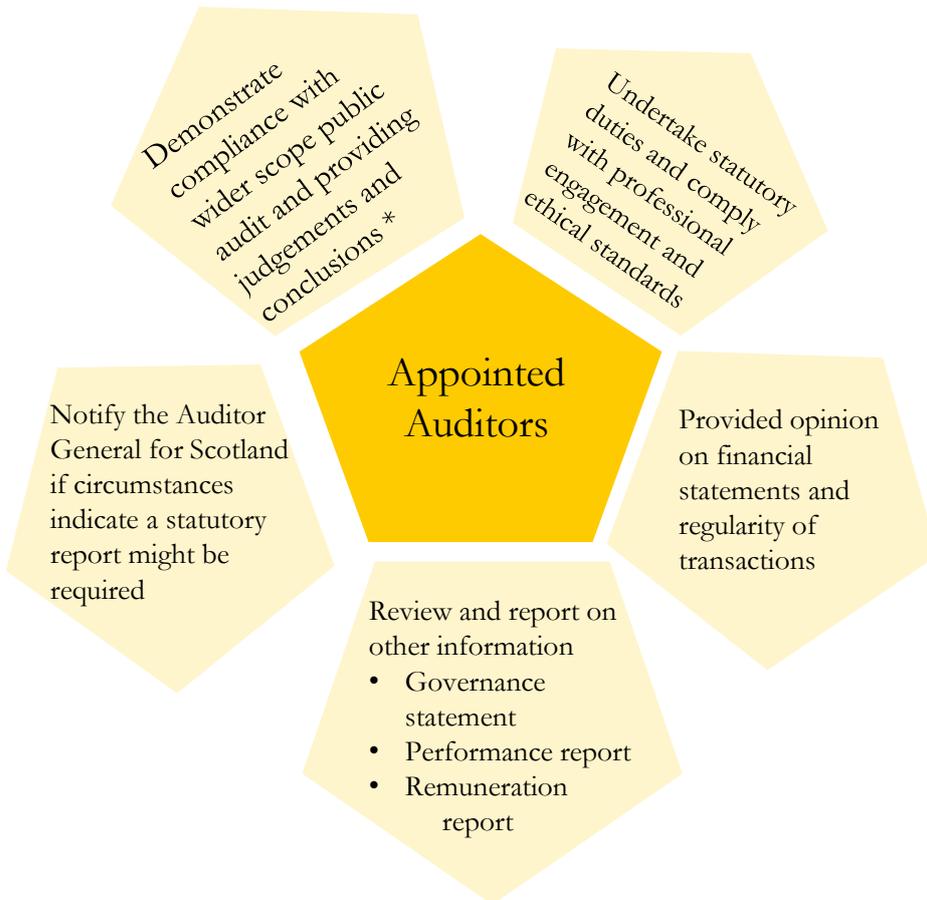
# Action Plan for 2016/17

During the course of our 2016/17 audit work we have identified the following actions for management. There were no prior year external audit recommendations to follow up, and we will follow up the recommendations below as part of our 2017/18 external audit.

	Area	Issue & Risk	Priority	Recommendation
1	<b>Financial Sustainability</b>	Recognising the small nature of OSCR as an organisation and its limited income source (Scottish Government) it will become increasingly difficult for OSCR to invest in the digital strategy and future plans without either additional income, or the ability to re-look at its cost base.	Medium	<p>OSCR will continue to look at ways to reduce costs and manage within its budget including scenario planning around future likely funding decisions and known cost pressures for example pay awards. A medium term financial plan will be produced, linked to the future strategic priorities of OSCR and management will continue to discuss the position with the Scottish Government sponsor team.</p> <p><b>Action owner:</b> CEO/SMT and Audit Committee <b>Timetable:</b> November 2017</p>
2	<b>Board meetings in public</b>	Board meetings given the nature of discussions are currently held in private albeit minutes and papers are available on-line.	Medium	<p>OSCR will revisit this as to whether this is still appropriate and in the spirit of openness and transparency. If it is not considered possible one option might be for one of the four Board meetings to held in public.</p> <p><b>Action owner:</b> CEO/Board <b>Timetable:</b> Agenda item for September 2017 Board</p>
3	<b>Scottish Government secondments</b>	During the year the Accountable Officer was on secondment for a period of time which benefited them personally but also OSCR around digital strategy. There may be further opportunities for these types of secondment in the future.	Medium	<p>We will explore with the Scottish Government where there is a clear knowledge and skills alignment and mutual benefit to both organisations and further opportunities to work closer together.</p> <p><b>Action owner:</b> CEO/SMT <b>Timetable:</b> Ongoing</p>

# Reminder of Responsibilities

The Code of Audit Practice sets out responsibilities of the audited body (pages 10, 11 and 12) across: Corporate governance; financial statements and related reports; standards of conduct for prevention and detection of fraud and error; financial position; and value for money (as described in the Scottish Public Finance Manual). As appointed auditors our responsibilities are set out on page 13 and are summarised below.



*An audit of the financial statements is not designed identify all matters that may be relevant to those charged with governance. Weaknesses or risks are only those that have come to our attention during our normal audit work in accordance with ISA's and the Code and may not be all that exist*

*Communication of the matters arising from our audit work does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control*

*\* Our audit of OSCR was undertaken under the smaller body exemption in the Code of Audit Practice. However, we have still considered the performance and accountability reports in the annual report and accounts; considered going concern and financial sustainability and included relevant commentary in this report to support OSCR's arrangements going forward.*





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