

King's and Lord Treasurer's Remembrancer

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the King's and Lord Treasurer's Remembrancer and the Auditor General for Scotland
August 2023

Contents

Key messages	3
Introduction	4
Part 1. Audit of 2022/23 annual report and accounts	5
Part 2. Wider Scope	8
Appendix. Action plan 2022/23	10

Key messages

Audit of 2022/23 annual report and accounts

- 1 The King's and Lord Treasurer's Remembrancer's financial statements:
 - properly present in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers the receipts and payments of the body for the year ended 31 March 2023; and
 - the balances held at that date and have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.
- 2 The audited part of the Remuneration and Staff Report was prepared in accordance with the financial reporting framework, and the Performance Report was consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.
- 3 No adjustments have been made to the financial statements as a result of the audit process.

Wider Scope

- 4 KLTR had adequate financial planning and monitoring arrangements in place, and these were subject to scrutiny by the Audit and Risk Committee during 2022/23.
- 5 Governance arrangements will be further enhanced during 2023/24 through the establishment of a separate Board to support the KLTR and advise on the effectiveness of corporate governance arrangements.
- 6 The Governance Statement has been prepared in accordance with the relevant statutory guidance.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of the King's and Lord Treasurer's Remembrancer (KLTR) and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.
2. The scope of the audit was set out in an Annual Audit Plan which was circulated to members in March 2023. This Annual Audit Report includes significant matters arising from an audit of KLTR's annual report and accounts, and conclusions on the financial sustainability and the appropriateness of the disclosures in the Governance Statement.
3. We would like to thank all Board members, management and staff, particularly those in finance, for their cooperation and assistance this year and we look forward to working together over the course of the five-year appointment.

Adding value through the audit

4. We aim to help KLTR promote improved standards of governance, better management and decision making and more effective use of resources. We do this by sharing intelligence and good practice and by identifying and providing insight on significant risks and making clear recommendations for improvement.

Responsibilities and reporting

5. KLTR has primary responsibility for ensuring the proper financial stewardship of its resources. This includes preparing an annual report and accounts in accordance with the accounts direction from Scottish Ministers. KLTR is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity.
6. The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000, the [Code of Audit Practice 2021](#) and supplementary guidance and International Standards on Auditing in the UK.
7. This report contains an agreed action plan at the [Appendix](#) setting out specific recommendations, responsible officers, and dates for implementation. The weaknesses or risks identified in this report 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.

Auditor Independence

8. We confirm that we comply with the Financial Reporting Council's Ethical Standard, that we have not undertaken any non-audit related services and that the 2022/23 audit fee of £4,270, as set out in our 2022/23 Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Part 1. Audit of 2022/23 annual report and accounts

Public bodies are required to prepare annual report and accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship public funds.

Main judgements

Audit opinions on the annual report and accounts are unmodified.

No adjustments have been made to the financial statements as a result of the audit process.

Audit opinions on the annual report and accounts are unmodified

9. The Audit and Risk Committee approved the annual report and accounts for the KLTR for the year ended 31 March 2023 on 31 August 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements properly present the receipts and payments of the KLTR and were properly prepared in accordance with the financial reporting framework
- receipts and payments are regular and in accordance with applicable enactments and guidance
- the audited parts of the Remuneration and Staff Report have been prepared in accordance with the relevant legislation and directions made by Scottish Ministers
- the Performance Report and Governance Statement are consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The 2022/23 annual report and accounts were certified on 31 August 2023

10. We received the unaudited annual report and accounts on 26 May 2023 in line with the agreed audit timetable. Management provided good support to the audit team which helped to ensure the audit process ran smoothly.

Our audit approach and testing was informed by the overall materiality level of £225,000

11. The concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the accounts, and impact the opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature, and it is ultimately a matter of the auditor's professional judgement.

12. Our initial assessment of materiality was carried out during the planning phase of the audit and was based on the audited 2021/22 annual report and accounts. These materiality values were reported in our annual audit plan.

13. On receipt of the unaudited annual report and accounts we reconsidered our materiality levels based on the financial results for the year ended 31 March 2023, and concluded that our original materiality levels remained appropriate. These materiality levels are summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£225,000
Performance materiality	£168,000
Reporting threshold	£11,000

14. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 75% of overall materiality, reflecting the low level of errors in previous years, the lack of estimation in the accounts and the non-complex nature of the body.

Our audit identified and addressed the risk of material misstatement to the financial statements

15. [Exhibit 2](#) sets out the significant risk of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over this risk and the conclusions from the work completed.

Exhibit 2

Identified risk of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Test journals during the year and at year-end and focus on significant risk areas.</p> <p>Evaluate significant transactions outside the normal course of business.</p> <p>Assess the adequacy of the arrangements in place for identifying and disclosing related party relationships and transactions in the financial statements.</p>	<p>Our review of the controls and processes surrounding journal entries identified no issues.</p> <p>Our testing of journals included transactions from throughout the financial year and focused on high value transactions. No issues were identified from our testing.</p> <p>We identified one transaction, a temporary advance from COPFS to meet a temporary cash shortfall, as outwith the normal course of business. We obtained satisfactory explanation and documentation to support this transaction.</p> <p>No issues were identified from our review of the arrangements for identifying and disclosing related party relationships and transactions.</p>

We have no significant findings to report from our audit of the annual report and accounts

16. 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.

17. We have no significant issues to report from the audit.

Prior year recommendations have been implemented

18. The previous external audit team made two recommendations in the 2021/22 annual audit report. Both of these were fully implemented during 2022/23. Refer to [Appendix](#) for details.

Part 2. Wider Scope

For less complex bodies wider-scope audit work considers the financial sustainability of the body and the services that it delivers over the medium to longer term

Main judgements

KLTR had adequate financial planning and monitoring arrangements in place, and these were subject to scrutiny by the Audit and Risk Committee during 2022/23.

Governance arrangements will be further enhanced during 2023/24 through the establishment of a separate Board to support the KLTR and advise on the effectiveness of corporate governance arrangements.

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

KLTR had adequate financial planning and monitoring arrangements in place during 2022/23

19. 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.

20. The KLTR is self-funded and does not set a budget as it relies on cases being reported to it. Receipts received by KLTR are held for five years and a balance of £3.5 million is retained against any potential liabilities. Any surplus above this amount was surrendered to the Scottish Consolidated Fund on a quarterly basis until the third quarter of 2022/23.

21. With effect from 1 April 2023, the KLTR has agreed with the Scottish Government that KLTR will make a single annual contribution to the Scottish Consolidated Fund (SCF) in March each year. The Scottish Government has also agreed that, in the event of exceptional demand on KLTR balances, they will reimburse SCF payments previously remitted by KLTR. This will provide additional flexibility to enable KLTR to fund future potential liabilities.

22. From our review of the annual accounts, ongoing discussions with management and observations at the Audit and Risk Committee, we have concluded that the financial arrangements in place are adequate.

Appropriate governance arrangements were in place during 2022/23

23. During 2022/23, the KLTR shared an Audit and Risk Committee (ARC) with the Crown Office and Procurator Fiscal Service (COPFS). ARC members are Non-Executive Directors and support the KLTR in their responsibilities for issues of risk, control and governance.

24. We regularly attend ARC meetings and note that these are well attended. Members are engaged during meetings and provide effective scrutiny and challenge. In response to the previous external audit team's recommendation, an update paper is prepared in advance of each meeting and presented by the KLTR.

Governance arrangements will be further enhanced during 2023/24 through the establishment of a separate advisory board

25. Following a recent review of KLTR's governance arrangements, a separate advisory board has been established to support the KLTR's strategic direction, and to provide the KLTR with advice and guidance. The Board will also have responsibility for advising on the effectiveness of the KLTR's corporate governance arrangements, including the systems of internal control and assurance, risk management and financial reporting.

26. The Board will be chaired by the KLTR and comprise the KLTR, the KLTR accountable officer, the Non-Executive Directors of the COPFS Audit and Risk Committee, the KLTR Legal and Policy leads, and the COPFS Director of Finance and Procurement.

27. We have concluded that these new arrangements will further enhance KLTR's governance arrangements.

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

28. The Governance Statement has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

The KLTR plans to formally launch the Ownerless Property Transfer Scheme in spring 2024

29. The KLTR established the Ownerless Property Transfer Scheme (OPTS) in 2021/22. The OPTS is aimed at providing opportunities for Scottish public bodies, local authorities and community groups to bring ownerless properties brought to the attention of the KLTR back into use where it is in the public interest to do so.

30. The KLTR has increased staffing levels to cope with anticipated policy and caseload demands based on the results of a number of focused pilots which commenced in 2021/22. These pilots are expected to conclude during 2023/24 and the KLTR plans to formally launch the OPTS in spring 2024.

Appendix. Action plan 2022/23

Follow-up of prior year recommendations

Issue/risk	Recommendation	Update
b/f 1. Workforce Planning	Due to the increase in capacity, workload and expansion plans, the QLTR should prepare a workforce plan to support their future work programme.	Complete A workforce plan for the next 24 months was considered by the ARC in November 2022. This set out the immediate priorities, anticipated business volumes and other challenges facing KLTR and identified the need to employ an additional 3 permanent and 2 temporary staff. Progress on staffing and recruitment to fill these posts has been reported to subsequent ARC meetings.
b/f 2. ARC papers	Due to the expanding scope of QLTR work, it is recommended that a summary update paper along with supporting schedules (e.g. risk register) is presented at ARC meetings to enable effective scrutiny and challenge and also demonstrate openness and transparency.	Complete With effect from the November meeting, the KLTR has presented a summary update paper to ARC members at each meeting. The risk register is also presented at each meeting.

King's and Lord Treasurer's Remembrancer

2022/23 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



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk