

Redress Scotland

2022/23 Annual Audit Report



Prepared for Redress Scotland and the Auditor General for Scotland
November 2023

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Key messages

2022/23 annual report and accounts

- 1 Audit opinions on the annual report and accounts are unmodified.
- 2 Key risks arising from the audit of Redress Scotland's accounts in our Annual Audit Plan were presented to the Audit, Risk and Assurance Committee in April 2023. There are no significant matters from that work to draw to the attention of the Board.
- 3 The annual report and accounts were submitted for audit in line with the agreed timetable.
- 4 Redress Scotland has established appropriate governance and financial management arrangements to deliver services, however there is scope for enhancing some aspects of these processes.

Wider scope

- 5 Redress Scotland operated within its revised budget of £3.250m for 2022/23, reporting an underspend of £16.9k.
- 6 Redress Scotland has agreed an annual financial plan for 2023/24.
- 7 Arrangements for securing Best Value are being actively developed.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of Redress Scotland. The scope of the audit was set out in an Annual Audit Plan presented to the April 2023 meeting of the Audit, Risk and Assurance Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of Redress Scotland's annual report and accounts
- wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#), which for less complex bodies includes conclusions on financial sustainability

2. This report is addressed to Redress Scotland and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Audit appointment from 2022/23

3. I, Pauline Gillen, have been appointed by the Auditor General as auditor of Redress Scotland for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of my five-year appointment. My appointment coincides with the new [Code of Audit Practice](#) (the Code) which was introduced for financial years commencing on or after 1 April 2022.

4. My team and I would like to thank the Redress Scotland Board and staff, for their cooperation and assistance in this year and we look forward to working together constructively over the course of the five-year appointment.

Responsibilities and reporting

5. Redress Scotland 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. Redress Scotland is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity.

6. The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2021](#) and supplementary guidance and International Standards on Auditing in the UK.

7. 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.

8. This report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation.

Auditor Independence

9. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £28,000 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.

10. We add value to Redress Scotland by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and identifying good practice.

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 principal means of accounting for the stewardship public funds.

Main judgements

Audit opinions on the annual report and accounts are unmodified.

Key risks arising from the audit of Redress Scotland's annual report and accounts as outlined in our Annual Audit Plan were presented to the Audit, Risk and Assurance Committee in April 2023. There are no significant matters from that work to draw to the attention of the Board.

Redress Scotland has established appropriate governance and financial management arrangements to deliver services, however some areas still need to be refined.

Audit opinions on the annual report and accounts are unmodified

11. The Audit Risk & Assurance Committee approved the annual report and accounts for Redress Scotland for the year ended 31 March 2023 on 29 November 2023. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- 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 unaudited annual report and accounts were received in line with the agreed timetable

12. The unaudited annual report and accounts were received in line with our agreed audit timetable on 29 September 2023 and a good level of support was provided to the audit team during the course of our audit work.

Overall materiality was assessed on receipt of the annual report and accounts as £32,600

13. Broadly, 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 hence impact their 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. It is ultimately a matter of the auditor's professional judgement.

14. Our initial assessment of materiality was carried out during the risk assessment and 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.

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£32,600
Performance materiality	£19,500
Reporting threshold	£1,600

Source: Audit Scotland

15. The overall materiality threshold was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

16. 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 60% of overall materiality, reflecting a higher level of risk associated with 2022/23 being the first year that Redress Scotland have prepared a set of financial statements.

17. It is our responsibility to request that all misstatements, other than those below our reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

18. Under International Standard on Auditing (UK) 260, we communicate significant findings from the audit to the Audit Risk & Assurance Committee including our view about the qualitative aspects of the body's accounting practices.

19. The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

20. The significant findings and key audit matters are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings and key audit matters from the audit of the annual report and accounts

Issue	Resolution
<p>1. Recognition of accrual – contractor costs due to Scottish Government</p> <p>A £35,000 accrual was initially recognised within the Statement of Comprehensive Net Expenditure and the Statement of Financial Position. This related to salary recharges for costs incurred by the Scottish Government (SG) on behalf of Redress Scotland.</p> <p>It was confirmed that this amount is unlikely to be paid to SG. Therefore, the accrual was reassessed as a contingent liability. Given that there is a remote possibility of repayment actually being made, no disclosure is made in the financial statements.</p> <p>This has the effect of reducing net expenditure in the Statement of Comprehensive Net Expenditure and reducing Trade Payables in the Statement of Financial Position.</p>	<p>This has been adjusted for by management.</p>
<p>2. Non-compliance with the Government Financial Reporting Manual (FReM)</p> <p>Instances of non-compliance with the FReM were identified across sections of the annual report including the Performance Report, Governance Statement and Remuneration and Staff Report. For example, the structure and format of the Performance Report and Remuneration and Staff Report were not in line with FReM requirements.</p>	<p>The annual report was updated by management and now complies with the requirements of the FReM.</p> <p>Recommendation 1 (Refer to Appendix 1 – Action Plan)</p>

Our audit work responded to the risks of material misstatement that we identified in the annual report and accounts

21. We have obtained audit assurances over the identified significant risks of material misstatement to the annual report and accounts. [Exhibit 3](#) sets out the significant risks 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 these risks and the conclusions from the work completed.

Exhibit 3

Identified significant risks of material misstatement in the annual report and accounts

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>	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. 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. Test journals at the year-end and post-closing entries with a focus on significant risk areas. Consider the need to test journal entries and other adjustments during the period. Evaluate significant transactions outside the normal course of business. Assess the adequacy of controls in place for identifying and disclosing related party relationships and transactions in the financial statements. Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. 	<p>We undertook the assurance procedures as planned and found:</p> <ul style="list-style-type: none"> Through the work of the Scottish Government audit team, the general ledger controls were found to be operating as expected. Management are not aware of inappropriate or unusual activity. Detailed testing of journal entries did not identify any errors. There were no significant transactions outside the normal course of business. Second Officer authorisation of journal entries is not explicitly evidenced. This should be recorded to demonstrate appropriate segregation of duties. <p>Recommendation 2. (Refer to Appendix 1 – Action Plan).</p> <p>Conclusion: We did not identify any instances of management override of controls.</p>

Audit risk	Assurance procedure	Results and conclusions
	<ul style="list-style-type: none"> • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments. 	

22. In addition, we identified an “area of audit focus” in our 2022/23 Annual Audit Plan where we considered there to be other risks of material misstatement to the financial statements. The area of specific audit focus related to the disclosures within the Performance Report, the Governance Statement and the Remuneration and Staff Report. This is the first year that Redress Scotland produced financial statements in accordance with the Financial Reporting Manual (FReM). These disclosures can be complex and are subject to management judgement. We reviewed these areas against supporting evidence and ensured that they comply with the requirements of the FReM and any other relevant guidance.

23. A number of issues were identified in relation to the structure and format of various sections of the annual report and accounts, particularly in relation to the Performance Report and Remuneration and Staff Report. Information reported on the key risks faced by Redress Scotland and Information Security which is required within the Governance Statement had been reported in other areas of the annual report and accounts. This has been reported as a significant finding in [Exhibit 2](#).

As this is the first year that the annual report and accounts has been prepared by Redress Scotland, there were no comparative figures to be reported. Prior to the establishment of Redress Scotland as a single entity on 1 April 2022, previous operational costs incurred in the 2022/23 financial year were met by the sponsoring Scottish Government Department. The assets and liabilities transferred from Scottish Government to Redress Scotland on 1 April 2022 were incorrectly reported in the General Reserve as opening balances. We asked Redress Scotland to amend the disclosure of opening balances to demonstrate more clearly the transfer of assets and liabilities during 2022/23 from Scottish Government. Management amended the disclosure in the Statement of Changes in Taxpayers’ Equity and relevant Notes to the Accounts to ensure disclosures are in line with the FReM and relevant ISAs.

There were two non-material misstatements identified within the financial statements which exceed our reporting threshold

24. Prepayment - The unaudited annual report and accounts included a balance of £16k which had been incorrectly recognised as a prepayment. This related to expenditure on computer equipment incurred in the 2022/23 financial year and therefore should be recognised in that financial year. This has been adjusted for

by management with the total expenditure of £16k being recognised in the Statement of Comprehensive Net Expenditure and the derecognition of a prepayment within the Statement of Financial Position.

25. External Audit Fee - VAT had incorrectly been recognised against the external audit fee for 2022/23 within the unaudited annual report and accounts, resulting in this being overstated by £5,600. This has been adjusted by management to ensure the audit fee reported in the audited annual report and accounts is in line with the Annual Audit Plan presented in April 2023. The net effect is a reduction in expenditure within the Statement of Comprehensive Net Expenditure and the derecognition of an accrual within the Statement of Financial Position.

There are some weaknesses in the established system of internal control and wider governance arrangements

26. From our review of the design and implementation of systems of internal control (including those relating to IT) relevant to our audit approach, we noted the following area where there is scope for improvement to the operation of certain internal controls:

- Journal transactions are subject to secondary review by an independent officer, however there is no evidence recording the completion of this review.

Recommendation 2

To strengthen internal controls, procedures should be implemented to document secondary review of all journal entries.

27. The Code of Conduct adopted by Redress Scotland is based on the Ethical Standards framework, established by the Ethical Standards in Public Life etc. (Scotland) Act 2000. This Act sets out the requirements for a Register of Interests to be maintained and for this register to be available for public inspection. We note that members and officers of Redress Scotland have the opportunity to declare a conflict of interest at any formal meeting of the Oversight Board or its Committees. However, a formal Register of Interests has not yet been developed and made available for public inspection.

Recommendation 3

A formal Register of Interests should be developed and kept up to date for all members of the Oversight Board and Audit, Risk and Assurance Committee, as well as the Senior Management Team of Redress Scotland. The Register of Interests should be made publicly available on the Redress Scotland website.

28. There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a

cyber-attack can have on both the finances and operation of an organisation. In 2022/23, we considered Redress Scotland's arrangements for managing and mitigating cyber security risks. We have noted that plans are in place for the testing of Cyber Security arrangements and the wider Business Continuity Plan during 2023/24. We will monitor developments in this area as part of our 2023/24 audit work.

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

Conclusion

Redress Scotland has agreed an annual financial plan for 2023/24.

Arrangements for securing Best Value are still developing and significant progress has been made during the course of 2022/23.

Redress Scotland operated within its revised budget for 2022/23

29. The main financial objective for Redress Scotland is to ensure that the financial outturn for the year is within the budget allocated by the Scottish Government.

30. Redress Scotland has reported an outturn of £3.23 million against its overall revised budget for 2022/23 of £3.25 million as shown in [Exhibit 4](#).

Exhibit 4

Performance against fiscal resource in 2022/23

Performance	Initial budget £m	Final budget £m	Outturn £m	Over/(under) spend £m
Revenue	5.00	3.25	3.23	(0.02)

Source: 2022/23 Redress Scotland Annual Report and Accounts

Redress Scotland has agreed an annual financial plan for 2023/24. Challenges may exist in future years

31. Redress Scotland's received an initial Grant in Aid allocation from the Scottish Government of £5 million for the 2023/24 financial year.

32. The Oversight Board approved a budget for 2023/24 within the Scottish Government funding limit of £5m. A significant part of the approved budget is variable and dependent upon the number of panel days worked. The underlying assumptions have been determined with the intention of tackling the backlog of

applications during 2023/24. This may involve increasing the number of panel members engaged by the organisation.

33. There are risks associated with the achievement of financial outturn in 2023/24. These include:

- expectations of survivors and other key stakeholders in relation to the time taken to process decisions exceeding current resource capacity. This may, in turn, drive demand for potentially higher levels of output from Redress Scotland.
- cost pressures arising from supply chain costs, salary awards and general price inflation being above the level of budget assumptions.

34. Redress Scotland has a specific function to fulfil. Therefore, it is expected that the organisation will only be operational for the period of time it takes to complete this primary objective. The relatively short-term nature of the organisation makes planning for the future challenging. Aligning budget requirements to deliver the level of resource capacity to achieve its service obligations within such a tight timeframe may become more challenging in future years.

35. Key decisions about the method of service delivery will have a significant influence on the level of resources available to deliver services in the future. Currently, Redress Scotland is a virtual organisation without a permanent office space. The organisation relies on internet communications and third-party IT services to manage its core business activities. This current arrangement allows funding to be redirected into providing staff resources to support service delivery to survivors. Should this approach change in the future, cost implications will be incurred in procuring appropriate office space and associated equipment, which would divert resources away from workforce capacity.

Redress Scotland arrangements for securing Best Value are being actively developed

36. 2022/23 is the first full year of operation for Redress Scotland as an established entity. During this time, significant effort has been devoted to establishing appropriate systems of governance. These include:

- Establishing and supporting the role and work of the Oversight Board and its standing committees,
- Recruiting and onboarding a large number of staff who perform key professional roles within the organisation,
- Developing a framework of policies and procedures which provide the basis for the system of internal governance to support the operational activities of the organisation,
- Developing key strategic corporate plans, ensuring that objectives are fully supported by detailed financial and workforce plans
- Implementing key systems and processes which support the operational needs of the organisation, including financial management,

- Working in partnership with Scottish Government, representative organisations of survivors and other external organisations,
- Designing and implementing a risk and quality assurance framework to identify and manage organisational performance.

37. We have concluded that arrangements for securing Best Value are still developing but that significant progress has been made during the course of 2022/23. We will continue to monitor developments during the remainder of our audit appointment.

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Non-compliance with the Government Financial Reporting Manual (FReM)</p> <p>Instances of non-compliance with the FReM were identified across sections of the annual report including the Performance Report, Governance Statement and Remuneration and Staff Report.</p> <p><i>Risk – The annual report and accounts do not comply with the Financial Reporting Framework.</i></p>	<p>Management should review the content and format of its Annual Report and Accounts to ensure compliance with the FReM.</p> <p>Exhibit 2.</p>	<p>Redress Scotland has valued the advice from Audit Scotland on our very first annual report and accounts. In future years, a full FReM review will be completed of every annual report to ensure compliance and inclusion of any updates and changes to guidance.</p> <p>Head of Finance and Resources</p> <p>30/09/2024</p>
<p>2. Second Officer Authorisation of Journals</p> <p>Journal transactions are subject to secondary review by an independent officer, however there is no evidence recording the completion of this review.</p> <p><i>Risk – It is unclear whether journal entries have been subject to second officer review.</i></p>	<p>Management should strengthen the internal controls to ensure all officers involved in the creation and approval of journal entries record when this is completed.</p> <p>Paragraph 27.</p>	<p>A journal approval template has been developed and will capture approvals going forward. This will be reconciled and audited.</p> <p>Head of Finance and Resources</p> <p>31/12/2023</p>
<p>3. Register of Interests</p> <p>A formal Register of Interests for Redress Scotland has not yet been developed.</p> <p><i>Risk – Redress Scotland are not aware of conflicts of</i></p>	<p>A formal Register of Interests should be developed and maintained for all members of the Oversight Board and Audit, Risk and Assurance Committee, as well as the Senior Management Team</p>	<p>A register of interests is being developed and will be implemented and monitored.</p> <p>Chief Executive</p> <p>31/12/2023</p>

Issue/risk	Recommendation	Agreed management action/timing
<i>interests or potential related parties that exist.</i>	which is made publicly available on the Redress Scotland website. Paragraph 28.	

Redress Scotland

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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