



# **The Queen's and Lord Treasurer's Remembrancer**

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

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Angela Cullen, Assistant Director, Audit Scotland is the appointed external auditor of the Queen's and Lord Treasurer's Remembrancer for the period 2014/15 to 2015/16.

This report has been prepared for the use of the Queen's and Lord Treasurer's Remembrancer 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

- The independent auditor's report on the 2015/16 financial statements is unqualified.

## Financial Position

- Net receipts from operations of £8.387 million with £9.223 million paid to the Scottish Consolidated Fund in 2015/16.
- QLTR receipts and payments are difficult to predict and QLTR continues to monitor its financial position. We concluded that the QLTR's financial management was effective in mitigating the risk of having insufficient funds available to cover claims.

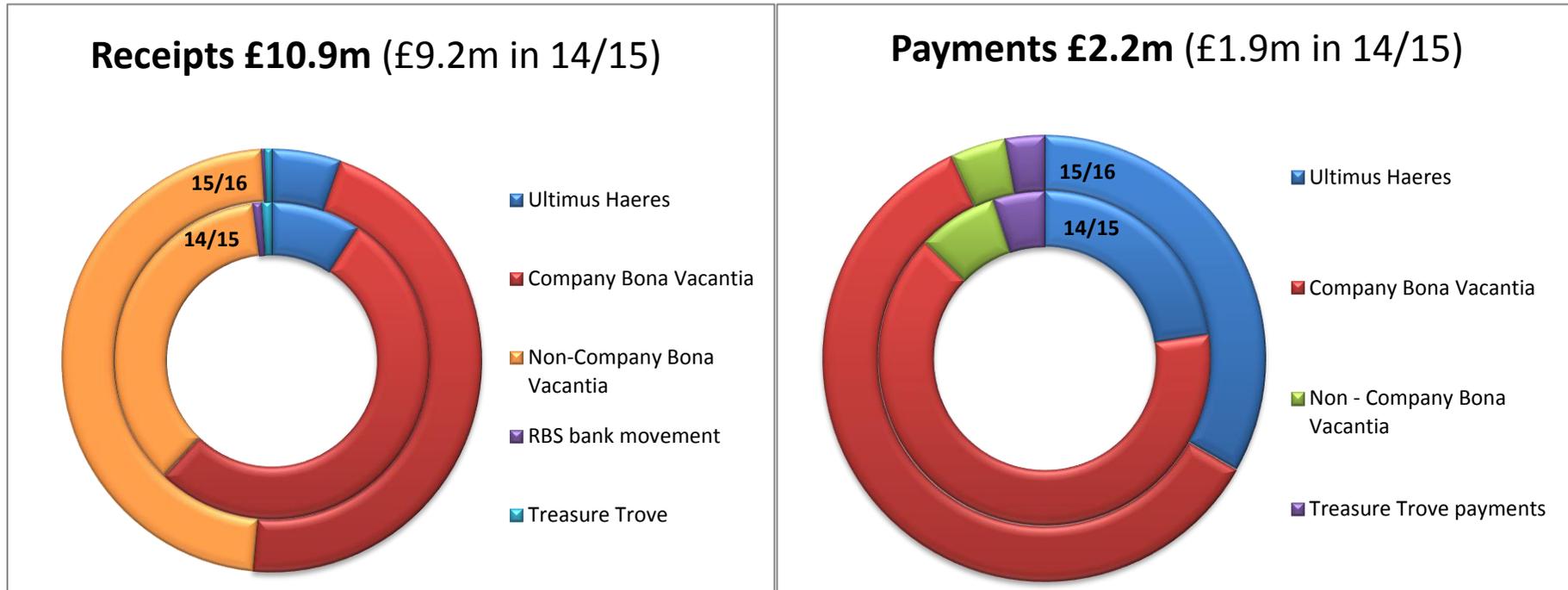
## Governance & accountability

- The QLTR shares its governance arrangements with the Crown Office and Procurator Fiscal Service, including the Audit and Risk Committee.
- We found that the QLTR had sound governance arrangements in place during 2015/16.

# Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of the Queen's and Lord Treasurer's Remembrancer (QLTR).
2. The management of QLTR is responsible for:
  - preparing financial statements which give a true and fair view, in accordance with the relevant financial reporting framework
  - ensuring the regularity of transactions, by putting in place systems of internal control
  - maintaining proper accounting records
  - publishing with their financial statements an annual governance statement and a remuneration and staff 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. Local reports are summarised at [appendix II](#).
6. [Appendix III](#) is an action plan setting out our recommendations to address the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that the QLTR understands its risks and has arrangements in place to manage them. The Audit and Risk Committee should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. 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.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.
9. 2015/16 is the final year of the current five year audit appointment. From 2016/17 the auditor of QLTR will continue to be Angela Cullen, Assistant Director, Audit Scotland.

# Audit of the 2015/16 financial statements



The financial statements show that receipts of £10.9 million are £1.767 million (19%) more than last year. During 2015/16, the QLTR had a significant increase in its receipts as a result of the Law Society of Scotland requiring firms of solicitors to address historic bank balances held in their client accounts.

Payments have increased by £0.3 million (16%); the level of payments is dependent on the extent of estates completion and dissolution of companies that take place during the year.

# Audit opinions

<b>Financial Statements</b>	<ul style="list-style-type: none"><li>• The financial statements of the QLTR for 2015/16 properly present the receipts and payments and balances held.</li><li>• We confirm that the financial statements have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.</li></ul>
<b>Regularity</b>	<ul style="list-style-type: none"><li>• In all material respects, the receipts and payments in the financial statements were incurred or applied in accordance with any applicable enactments and guidance.</li></ul>
<b>Other prescribed matters</b>	<ul style="list-style-type: none"><li>• The information given in the Performance Report is consistent with the financial statements.</li></ul>

## Submission of financial statements for audit

10. We received the unaudited financial statements on 13 May 2016, in accordance with the agreed timetable. The working papers were of a good standard and staff provided support to the audit team which enabled us to complete our on-site fieldwork on 8 June 2016.

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

11. 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 presented to the Audit and Risk Committee on 23 February 2016.
12. 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 £3,740 and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
13. 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.

14. [Appendix I](#) sets out the audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.
15. 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.

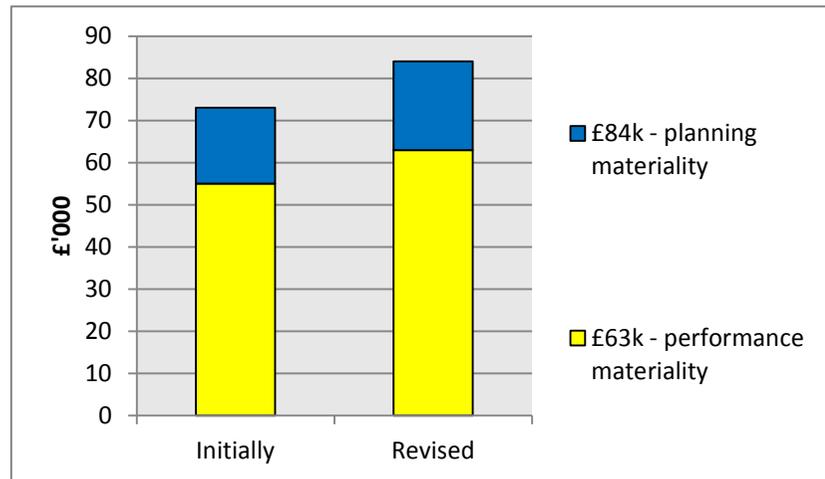
## Materiality

16. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit procedures. We assess the materiality of uncorrected misstatements, both individually and collectively.
17. 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.
18. We summarised our approach to materiality in our Annual Audit Plan. We revised our planning materiality for 2015/16 on receipt of the unaudited accounts to £83,870 (1% of net receipts).
19. 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 £62,902 (i.e. 75% of materiality).

20. We report all misstatements greater than £1,000.

### Exhibit 1: Overall materiality levels



Source: 2015/16 Annual Audit Plan

## Evaluation of misstatements

21. No misstatements were identified during the audit.

## Significant findings from the audit

22. 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.
23. A small number of presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements.
24. The following table details those issues or audit judgements that, in our view, 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

25. **Remuneration and Staff Report Pension Benefits Disclosure:** Public bodies disclose the salary and pension entitlements of ministers and directors in line with the Government Financial Reporting Manual (FReM). The QLTR accounts disclose the Accountable Officer's salary but not his pension entitlements.
26. QLTR is required in its Accounts Direction to comply with the Scottish Public Finance Manual (SPFM). The SPFM does not make specific reference to remuneration and staff disclosures so the disclosure complies with, and goes beyond, the SPFM. However, QLTR prepares its annual report and accounts in line with the best practice set out in the FReM in all other aspects. To ensure that QLTR is consistent in its application of FReM best practice it should disclose pension benefits for ministers and directors in the format proposed by the Cabinet Office as set out in the FReM (paragraph 5.3.22).

**Resolution:** We consider that the FReM disclosure requirements should be followed as best practice, and recommend that QLTR **asks the Scottish Government, as the Accountable Officer's employer, to request the Accountable Officer's MyCSP pension benefits information and disclose this in the 2016/17 remuneration and staff report.**

*[Appendix III – Action Plan No.1](#)*

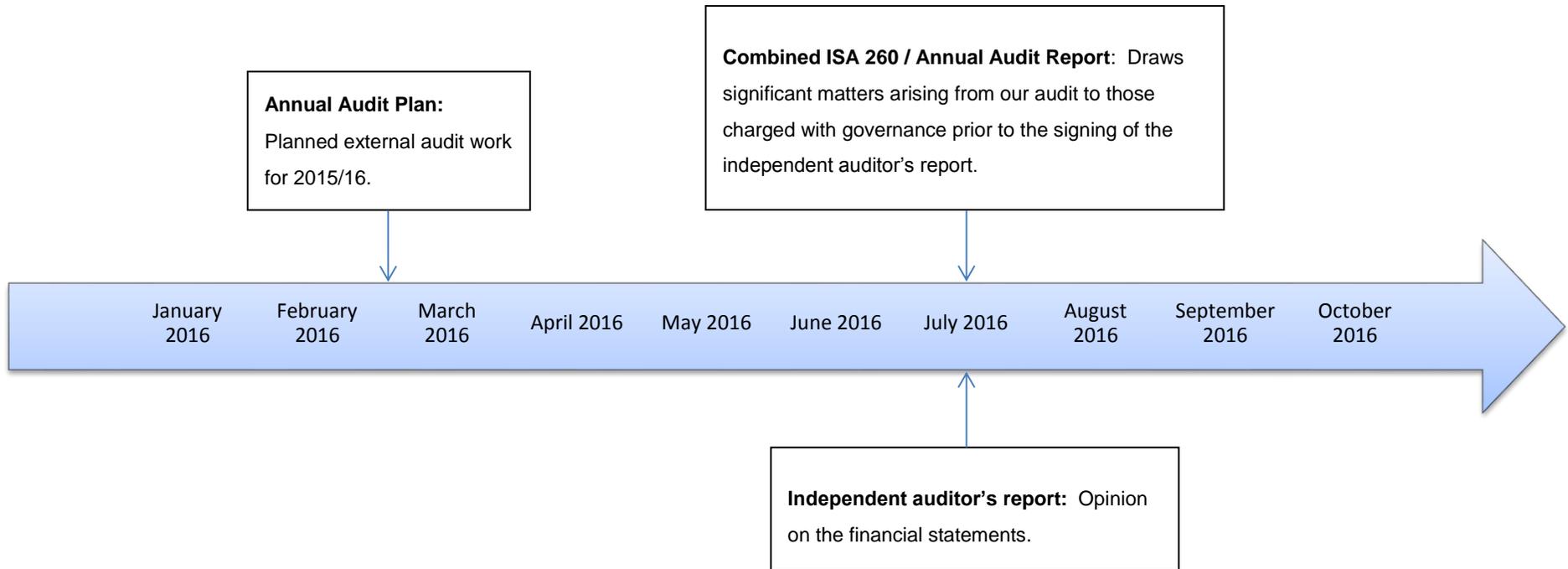
# Appendix I: Significant audit risks

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>Financial statement issues and risks</b>		
<p><b>Management Override of Controls</b> (Receipts and Payments Account)</p> <p>Auditing standards (ISA 240 The auditor’s responsibility to consider fraud in an audit of financial statements) requires auditors to consider, on all audits, management’s ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries.</li> <li>• Review of accounting estimates.</li> <li>• Evaluation of significant transactions that are outside the normal course of business.</li> </ul>	<p>We concluded from our audit testing that the 2015/16 journal entries, accounting estimates and judgments and significant transactions which we reviewed were appropriate.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p><b>Adequacy of Reserves</b> (Summary Note of Balances Held)</p> <p>The Accrued Income cash reserve is used to fund any claims from entitled parties or liabilities arising from a property which has vested in the Crown as Bona Vacantia. There is a risk that the liabilities relating to the property outweighs receipts generated. The QLTR monitors all new and ongoing cases to seek to achieve either a disposal or a disclaimer within the three year statutory period.</p>	<ul style="list-style-type: none"> <li>Review the QLTR's financial management and financial position providing comment in our Annual Audit Report.</li> </ul>	<p>We reviewed the impact of QLTR's policy of maintaining a reserve of £2 million and holding net receipts on an Ultimus Haeres estate for 5 years (previously 2 years) for any claim. We audited net receipts and payments to the Scottish Consolidated Fund during our financial statements audit. Net receipts of £8.771 million were reported in the financial statements, with £9.223 million surrendered to the Scottish Consolidated Fund. The Accrued Income Account balance at the year end was £3.630 million. We conclude that the balances held mitigate the risk of insufficient funds being available to cover claims; QLTR's financial management is considered effective.</p>
<p><b>Fraud</b> (Receipts and Payments Account)</p> <p>Auditing standards (<i>ISA 240 The auditor's responsibility to consider fraud in an audit of financial statements</i>) requires auditors to presume a risk of fraud where income streams are significant. In 2014/15 the QLTR received income from Bona Vacantia and Ultimus Haeres totalling £9 million. The extent of income means there is an inherent risk that income could be materially misstated.</p>	<ul style="list-style-type: none"> <li>Test internal controls in place to prevent fraud and where necessary carry out detailed testing of revenue transactions.</li> </ul>	<p>Substantive testing of all material receipt streams was undertaken. From the satisfactory results of our audit testing, we conclude that receipts are not materially misstated.</p>

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



## Appendix III: Action plan

No. AS ref.	Paragraph ref.	Issue/Recommendation	Management action/response	Responsible officer / Target date
1. 71950	25	<p><b>Remuneration and Staff Report Pension Benefits Disclosure:</b></p> <p>Public bodies disclose the salary and pension entitlements of ministers and directors in line with the Government Financial Reporting Manual (FReM). The QLTR accounts disclose the Accountable Officer's salary but not his pension entitlements.</p> <p>QLTR is required in its Accounts Direction to comply with the Scottish Public Finance Manual (SPFM). The SPFM does not make specific reference to remuneration and staff disclosures so the disclosure complies with, and goes beyond, the SPFM.</p> <p>However, QLTR prepares its annual report and accounts in line with the best practice set out in the FReM in all other aspects. To ensure that QLTR is consistent in its application of FReM best practice it should disclose pension benefits for ministers and directors in the format proposed by the Cabinet Office as set out in the FReM (paragraph 5.3.22).</p> <p><b>Recommendation:</b> We consider that the FReM</p>	<p>We do not agree that pension or salary details of the Accountable Officer need be disclosed as in our view he is not a director in terms of the FReM. The QLTR is an office-holder in the Scottish Administration (s.126 (8)(b) Scotland Act 1998 as supplemented by the Scottish Administration (Offices) Order 1999), whilst the Accountable Officer is appointed under s. 15 (30-(4) of the Public Finance &amp; Accountability (Scotland) Act 2000 and is a member of staff of that office-holder. The office-holder is performing the Ministerial/Board function that the Accountable Officer supports in being accountable to Parliament.</p>	N/A

No. AS ref.	Paragraph ref.	Issue/Recommendation	Management action/response	Responsible officer / Target date
		disclosure requirements should be followed as best practice, and recommend that QLTR asks the Scottish Government, as the Accountable Officer's employer, to request the Accountable Officer's MyCSP pension benefits information and disclose this in the 2016/17 remuneration and staff report.		