



# Office of the Scottish Charity Regulator (OSCR)

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**External Audit Annual Report to the Accountable Officer and the Auditor General for Scotland for the financial year ended 31 March 2018**

Final Report 13 June 2018

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# Our audit at a glance



We have fulfilled our responsibilities per International Standards of Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice throughout our work and this final report to the Accountable Officer and the Auditor General for Scotland concludes our work.



Materiality was set at 2% of gross expenditure within our plan, and remained unchanged at £57,000. We did not identify any adjustments to the draft financial statements based on our work and minor disclosure amendments were discussed and agreed.



Significant audit risks were: management override of controls; and the risk of fraud in expenditure recognition as set out in International Auditing Standards (ISAs UK) practice note 10. Our risk assessment remained unchanged and we did not identify any adjustments in these two areas in our work.

## An audit underpinned by quality



We have built on our relationship with OSCR management during the year and this has ensured an efficient audit process to allow for the audit to be concluded by the end of May 2018. Our audit opinion for the financial year 2017/18 is unqualified.



Our work was undertaken in accordance with our agreed timetable. The draft financial statements produced by management were of a high standard with complete information and good supporting working papers. We thank management for their support and assistance during our work



A wider scope audit for OSCR, as set out in our plan, was considered not appropriate. However we have considered your financial planning arrangements, recognising that year on year your funding from Scottish Government has stayed relatively static, and a significant proportion of your cost base is related to staff. This gives limited options to invest in new projects or initiatives.

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## Adding value through our external audit work

First and foremost our objective is to ensure we deliver a quality external audit which fully complies with International Standards of Auditing (ISAs) UK and the Audit Scotland Code of Practice (2016). By ensuring our audit is efficient and effective, gives you assurance over our opinion.

Through this Annual Report we seek to provide insight and commentary over certain aspects of OSCR's arrangements, sharing relevant practices with the Audit Committee and Management.

We have continued to build on our working relationship with management and our understanding of OSCR as an organisation. During the year we have shared relevant publications with management, in particular from Audit Scotland, and also supported with any technical queries. We flexed our year-end financial statements timetable this year to ensure that OSCR would have complete information available from Scottish Government to include the payroll accruals.

Lastly we are committed to audit quality. We shared our Audit Scotland Transparency report with the OSCR Audit Committee and will share lessons learned on an annual basis, as our reporting in this area evolves.

# Introduction

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2018.

Our work has been undertaken in accordance with International Standards of Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice 2016.

Our report is addressed to David Robb as OSCR Accountable Officer, in respect of his role as set out and agreed with Scottish Ministers. In addition, in accordance with our reporting responsibilities the report is jointly addressed to the Auditor General for Scotland.

Once finalised this report will be made publically available on the Audit Scotland website ([www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk))

Our report was presented as a draft to the OSCR Audit Committee on 8 June 2018. Once all outstanding matters are complete the report will be updated and finalised. OSCR intend to take this report alongside the final 2017/18 financial statements to the Board meeting on 12 June 2018, and will then be signed for OSCR on behalf of the Accountable Officer.

We would like to thank OSCR management and the finance team for an effective year-end audit process and all their support and assistance in the audit process.

## Structure of this report

As set out in our Audit Plan (February 2018) we consider in accordance with the Audit Scotland Code of Practice that OSCR is a smaller body. Therefore full wider scope is not appropriate. Our report concludes on our financial statements audit and certain aspects of OSCR's arrangements as follows:

Financial statements – Section 2

Performance and Strategic report – Section 2

OSCRs wider arrangements - Section 3



## Our Opinion

For the financial year ended 31 March 2018 we have issued an **unmodified audit opinion**

- True and fair view of the financial statements
- Regularity – expenditure has been incurred in accordance with the purpose of OSCR
- Other prescribed matters (which include the audited information in the remuneration report)



## The audit process

We received a good complete set of financial statements on 14 May 2018 including the performance report, strategic report and governance statement.

This was in line with the timetable we agreed. The draft financial statements were supported by good working papers and the audit was efficient.

We identified no changes to the financial statement balances and have no unadjusted differences to report to the Audit Committee and the Accountable Officer. We identified minor disclosure enhancements and these have been reflected in the financial statements.



# The financial statements audit



Our audit work was completed in accordance with International Standards in Auditing (UK) (ISAs) and the Audit Scotland Code of Audit Practice (May 2016). Based on our audit procedures performed we have issued an unmodified audit opinion on the financial statements including:

- they give a true and fair view
- have been properly prepared in accordance with relevant legislation and standards
- the wider information contained in the financial statements e.g. Performance and Strategic report
- regularity of expenditure
- audited parts of the remuneration and staff report have been prepared in accordance with the guidance

## Audit approach and materiality

Our audit approach was set out in our annual audit plan presented to the Audit Committee in February 2018. As set out in our plan, our materiality calculations were based on the audited 2016/17 financial statements. Overall materiality has been set at £57,000 (2% of gross expenditure) and performance materiality is set at £42,750 (75% of materiality). We report to management any audit difference identified over £2,850 (Trivial as 5% of materiality).

We did not identify any additional significant audit risks from those identified in our audit plan. Our work completed in relation to the audit risks identified (management override of controls and risk of fraud in expenditure) is set out on page 8.

## Internal control environment

During the year we sought to understand OSCR's overall control environment (design) as related to the financial statements. In particular we have:

- Considered procedures and controls around related parties, journal entries and other key entity level controls. In particular placing reliance on the work of Audit Scotland in their role of Scottish Government external auditors (key financial controls May 2018)
- Performed walkthrough procedures on key financial controls in particular journals, payroll and ledger controls

Our work over controls is limited to our ISA requirements in understanding an entities control environment. Our audit is not controls based and we do not seek reliance over controls. Our audit is fully substantive based in nature.

We identified no material weaknesses or areas of concern from this work which would have caused us to alter the planned approach, set out in our plan.

## Internal Audit

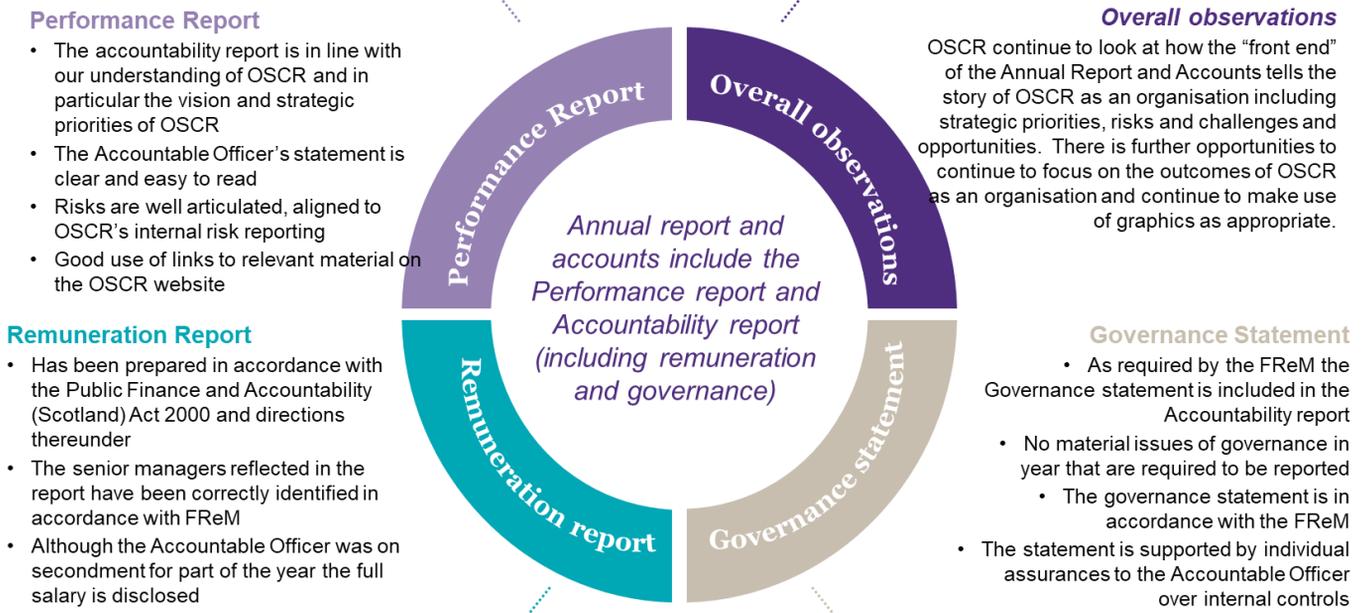
As set out in our external audit plan we have not placed formal reliance on the work of the Scottish Government Internal Audit Directorate, OSCR's internal audit provider. We reviewed the internal audit plan and individual reports issued to date, to consider if any impact on our audit approach, with none being noted and all reports receiving substantive assurance.

The opinion of Internal Audit for the year was substantial assurance, which is consistent with prior year.

The findings of internal audit do not disagree with our knowledge and understanding of OSCR as an organisation.

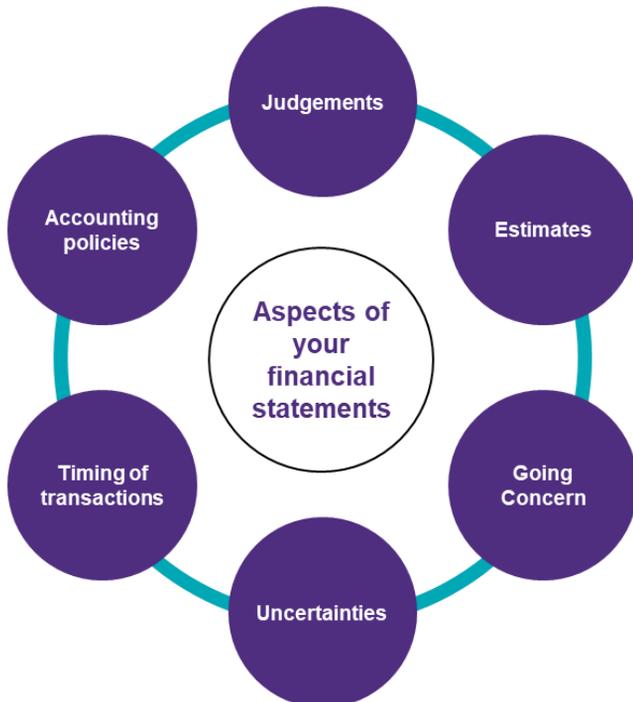
## Narrative elements of your annual accounts

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 and the financial statements and have set out our observations below. We have also audited the required information in the remuneration report (marked audited) and have no matters we wish to bring to your attention.



## Key aspects of your financial statements

As set out in our audit plan we consider particular aspects of your financial statements in relation to management judgements including estimates and where management may have particular options or choices in what accounting standards or disclosure requirements to apply. We have summarised where these apply, and our conclusions below.



### Commentary:

OSCR's accounting policies are consistent with the FReM and are unchanged from prior year.

Overall the OSCR accounts are considered simple accounts with no areas of estimate or judgement. X% of costs are payroll costs or fixed costs.

There are no provisions or uncertainties related to the accounts.

In relation to the audit risk of fraud in respect of expenditure we tested OSCR's cut of arrangements in particular (timing) and identified no issues in accruals or prepayments which would indicate potential fraud.

There are no post balance sheet events or legal uncertainties at year-end.

Finally OSCR, as set out in the performance and accountability reports, consider themselves a going concern. They have an agreed budget with the Scottish Government for 2018/19 and are working on financial plans up until 2023 although only receive a one year budget settlement. Given OSCR's role as the charity regulator, their role is set out in Scottish legislation and we have no reason to believe this legislation will change. On this basis we agree with managements assertion they meet the going concern criteria.

# Identified audit risks and our conclusions

## Overview of our audit risks identified at planning and our proposed approach

	Risk of fraud in revenue and expenditure	Management override of controls
The Risk	<p>As set out in ISA 240, there is a presumed risk that revenue may be misstated due to improper recognition of revenue. OSCR is a Non-Ministerial Central Government Department and therefore does not have an income stream. The budget is set by Scottish Government, and they can spend up to that limit, but it is not recognised in the accounts as Income.</p> <p>Therefore as set out in Practice Note 10 (revised), which applies to public sector entities, there is a presumed risk of fraud in expenditure recognition</p>	<p>As set out in ISA 240, across all entities there is a presumed risk of fraud being perpetrated by management through its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Override of controls is present in all entities.</p>
Our response	<ul style="list-style-type: none"> <li>• The focus of our risk was on material non-payroll expenditure. We targeted our audit procedures around those transactions with a higher risk of manipulation, being those transactions around the year end.</li> <li>• Performed cut off at year end on pre and post year end transactions and recording</li> <li>• Walkthrough of the key expenditure controls in place</li> <li>• Regularity – Consideration of how expenditure incurred was in accordance with the type/nature of OSCR as an organisation</li> </ul>	<ul style="list-style-type: none"> <li>• A focus on our understanding of how/where management override of controls may occur</li> <li>• Review of the controls over journal entries</li> <li>• Understanding key areas of judgement and estimation within the financial statements and the basis for these judgements and the application of accounting policies</li> <li>• Reviewing unusual and/or significant transactions</li> </ul>
Our conclusion	<p>Based on our testing we did not identify any areas of concern in our testing.</p> <p>Through our substantive procedures and sample testing we confirmed expenditure testing was in accordance with the nature of OSCR (regularity).</p> <p>We did not identify any exceptions in our cut-off testing.</p>	<p>Based on our testing we can conclude:</p> <ul style="list-style-type: none"> <li>• There was no evidence of management override in our testing of journals. There is limited ability within OSCR to post and authorise journals, and OSCR use SEAS the Scottish Government system.</li> <li>• OSCR's financial statements do not include judgements or estimates, which reduces the risk of management override</li> <li>• We did not identify any unusual or significant transactions in year.</li> </ul>

# Financial arrangements and future direction

## Key observations



**OSCR's financial position**

OSCR annual budget set by the Scottish Government and is circa £3 million. A significant proportion of OSCR's annual expenditure is fixed, with pay costs contributing to X percentage of total expenditure.

Whilst a relatively simple budget setting exercise it does raise risks around future financial sustainability and ability to invest in future activities.



**Finances – The future**

Recognising the fixed cost nature of OSCR as an organisation there is on an annual basis a limited amount of money available to fund new projects. During 2018/19 OSCR anticipate making use of a number of vacancies to use the cost savings to fund one-off activities for example digital investment. However, they recognise this is only a short term solution.

The financial constraints are recognised and OSCR are producing a medium term financial plan and continue to discuss with Government.



**OSCR 2023**

OSCR's vision is "Charities you can trust and that provide public benefit". By 2023 (5 years) OSCR will be: Intelligently driven, proactive, risk led and targeted, sustainably resourced, agile, 100% on-line, connected, influential, and a great place to work. Over 2018/19 a number of work streams are planned to take this strategy forward and will link to a 5 year workforce plan, and medium term financial framework.

We will consider the 2023 strategy and the progress during our 2018/19 external audit.



**Workforce**

OSCR's workforce is its largest cost. Previously the workforce has been relatively stable, at circa 50 employees. However, with new Government Bodies being established in Dundee there is a risk that the OSCR staff will leave OSCR, and in the last 3 months there have already been a number of leavers. There is a risk therefore that OSCR do not have sufficiently skilled individuals to deliver OSCR activity or do not have sufficient capacity to undertake new work in the future.

Staffing is identified as a key strategic risk for OSCR, with a 20% vacancy rate as at June 2018. Whilst this creates a short term financial opportunity, longer term sufficient skills and expertise is required



**Other OSCR Matters**

The only income source for OSCR is Grant in-aid from the Scottish Government. Looking ahead, similar to the English Charity Regulator, OSCR may need to explore options for charging for certain services, to generate sufficient income to invest in continuing to modernise OSCR and achieve the OSCR strategic priorities.

OSCR management has considered Brexit and potential implications and this is due be explored more in early 2018/19 considering scenarios relevant to OSCR as an organisation, but also the implication of the Charities OSCR regulates.

Sources of income are an area of ongoing conversation at the OSCR Board and will continue to be considered in light of future risks and opportunities.

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# Appendices

**Action plan and follow up of 2016/17 recommendations**

**Independence, fees and fraud responsibilities**

**Communication of audit matters with the Accountable Officer**

# Action plan and follow up of 2016/17 external audit recommendations

We have set out below, based on our audit work undertaken in 2017/18, those risks and recommendations we consider are of a higher risk to OSCR that Management may wish to consider in the future. We have also completed follow up of our 2016/17 recommendations and this is reflected below for information.

## Recommendation

## Agreed management response

OSCR have established a 2023 Strategic vision. Management continue to look at the various future financial scenarios in relation to delivering on the strategy, and how the strategy, finance and workforce aligns. Recognising the limited money available OSCR may need to make difficult decisions, including exploring how OSCR could self-generate income. This is something they should continue to discuss with the Sponsor department.

**Management response:** Agreed. The medium term strategy is ongoing and will be considered by the Board via a number of work streams. Routine reports will go to the Board during 2018/19 and will continue to be discussed with SG.

**Action owner:** Accountable Officer  
**Timescale for implementation:** Ongoing but will be updated by end of March 2019

## Follow up of 2016/17 External Audit Recommendations

## Action as at May 2018

Financial sustainability

### Ongoing

Since the 2016/17 external audit Management have re-looked at their financial planning arrangements. As part of the wider 2023 OSCR strategy, management are working on scenarios around future funding and the overall cost base of OSCR. This work is, by its nature, ongoing but good progress has been made.

Board meetings in public

### Complete

From 1 April 2018 all OSCR Board meetings are open to members of the public. This is a trial arrangement and will be reviewed at the end of the 2-18/19 financial year, considering how this has enhanced governance arrangements and any particular leanings to be taken into the future.

Scottish Government Secondments

**Ongoing** – will be considered in 2018/19 as part of wider workforce planning.

OSCR's Accountable Officer has now returned to OSCR full-time following his secondment. This is something OSCR will continue to consider, particularly in light of the 2023 vision and workforce plan.

# Fees, independence, fraud arrangements

## External Audit Fee

Service	Fees £
External Auditor Remuneration	10,070
Pooled Costs	2,510
Contribution to Audit Scotland costs	590
Contribution to Performance Audit and Best Value	0
<b>2017-18 Fee</b>	<b>13,170</b>

The audit fee was calculated in accordance with guidance issued by Audit Scotland and agreed with Management.

The above fee has not changed and our final fee was £13,170

## Fees for other services

Service	Fees £
We can confirm there are no non-audit fees for the 2017/18 financial year	Nil

## Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.

We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.

We can confirm no independence concerns have been identified.

## Fraud arrangements

In assessing our audit risks, the audit team was alert to the possibility of fraud at OSCR.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relation to management override of controls.
- Leading a discussion with those charged of governance (for OSCR this is assumed to be the Audit Committee) on their view of fraud. We did this when presenting our audit plan and in the form of management and those charged with governance questionnaires which were received in May 2018.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud
- responding appropriately to any fraud or suspected fraud identified during the audit. – None were identified in-year

As auditors we obtain reasonable but not absolute assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement.

It is **OSCR's** responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we worked with OSCR to review specific areas of fraud risk, including the operation of key financial controls.

We also examined certain policies in place, strategies, standing orders and financial instructions, as relevant to the fraud framework, to ensure that they provide a reasonable framework of internal control.

No suspected frauds or irregularities have been identified by Management and reported in-year.

# Communication of audit matters with the Accountable Officer

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
<b>We are independent of OSCR and have not identified any conflicts of interest</b>		
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
<b>We have not incurred any non-audit fees during the year and no threats to independence identified</b>		
Significant matters in relation to going concern	•	•
<b>No significant going concern matters identified</b>		
Views about the qualitative aspects of OSCR accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
<b>Set out in the Financial statements section of our report</b>		
Significant findings from the audit		•
<b>No significant findings from our audit</b>		
Significant matters and issues arising during the audit and written representations that have been sought		•
<b>Letter of representation will be shared and signed by the Accountable Officer when signing the financial statements. This is our standard, unmodified letter of representation.</b>		
Significant difficulties encountered during the audit		•
<b>No difficulties encountered</b>		
Significant deficiencies in internal control identified during the audit		•
<b>None identified</b>		
Significant matters arising in connection with related parties		•
<b>None identified</b>		
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
<b>None identified. A nil fraud return was submitted to Audit Scotland in April 2018 in accordance with the planning guidance.</b>		
Non-compliance with laws and regulations		•
<b>None noted</b>		
Unadjusted misstatements and material disclosure omissions		•
<b>None noted. Minor disclosure amendments only and these were not material in nature</b>		
Expected modifications to the auditor's report, or emphasis of matter		•
<b>None, an unqualified opinion</b>		

International Standards on Auditing (UK) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table above.

We communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to OSCR Management and the Audit Committee.

