



Office of the Scottish Charity Regulator (OSCR)

External Audit Report to the Board, Accountable Officer and the Auditor General for
Scotland for the financial year ended 31 March 2020

FINAL REPORT – August 2020

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Our audit at a glance



We received the complete draft financial statements including the Performance Report, Accountability Report and Governance Statement within the timescales we agreed.

Working papers were provided to support the audit process and our queries were responded to, to allow the timely completion of audit work. This was greatly appreciated by the audit team as it allowed the audit to be delivered efficiently despite the challenges Covid-19 created with the need for remote delivery of the audit.



The Accountability Report is in line with our understanding of OSCR and in particular their vision and strategic priorities. The Governance Statement, included within the Accountability Report, outlines the governance framework. The Remuneration and Staff report has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000, and directions thereunder. The disclosures in the Remuneration and Staff report are consistent with underlying payroll records.



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

An audit
underpinned by
quality and adding
value to you



We have issued an unmodified audit opinion on the annual report and accounts.



Significant audit risks are: management override of controls and the risk of fraud in expenditure recognition as set out in Financial Reporting Council's (FRC) Practice Note 10.

Our audit procedures in relation to the significant risks did not identify any exceptions with respect to expenditure recognition or evidence of management override of controls.



Materiality was set at £65,880 for 2019/20. This was calculated using the materiality benchmark of 2% as set out in our audit plan. We updated our materiality calculation based on the unaudited financial statements for 2019/20.

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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 on Auditing (ISAs) UK and the Audit Scotland Code of Practice (2016). By ensuring our audit is efficient and effective, underpinned by our quality arrangements, 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. We have acted on feedback received following our interim work including how we can better understand OSCR’s arrangement with the Scottish Government and linked to this we changed our year-end external audit team. We discussed approach to remote working at the outset of the year end audit and communicated regularly throughout the audit with the contact preparing the accounts within the Scottish Social Services Council (SSSC) and our OSCR contacts to keep them updated as to audit progress.

Despite the challenges of working remotely during the Covid-19 pandemic the audit was undertaken within agreed timelines. We were able to get the assurances required and complete our testing to conclude our audit.

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Introduction

Reporting

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2020.

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

Our report is addressed to the Accountable Officer for OSCR. In addition, in accordance with our reporting responsibilities the report is jointly addressed to the Auditor General for Scotland.

Once the accounts have been laid before parliament, the finalised audit report will be made publicly available on the Audit Scotland website (www.audit-scotland.gov.uk)

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

Structure of this report

As set out in our Audit Plan (January 2020) we consider in accordance with the Audit Scotland Code of Practice that OSCR meets the smaller body definition. Therefore full wider scope is not considered relevant.

However, as required in the Code of Audit Practice our report concludes on our audit of the annual report and accounts and certain aspects of OSCR's arrangements as follows:

Financial statements including the Performance Report and Accountability Report (including governance statement) – Section 1

Disclosures in the governance statement and financial sustainability of OSCR – Section 2 and 3

Covid-19

As a result of the Covid-19 pandemic we considered whether an additional financial statement audit risk was required. We concluded given the straightforward nature of the OSCR accounts for example little plant, property and equipment (no valuation risk) and low level of debtors, therefore limited risk of material misstatement within accounts receivable that this was not a financial statement risk.

However, we did consider the impact of Covid in ensuring completeness of audit evidence to support our testing and the impact on the audit of remote working.

Our opinion

For the financial year ended 31 March 2020 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 complete set of Annual Report and Accounts on 10th May 2020 including the strategic report, corporate governance statement, and director's remuneration report.

This was in line with the timetable we agreed. The draft financial statements were supported by working papers and the finance team at SSSC and OSCR staff were quick to respond to our queries.

We have no unadjusted differences to report.

We noted minor disclosure and formatting changes which resulted from our review of the accounts. These have all been processed in the final annual report and accounts. None of these changes were considered material and/or significant in nature and helped to improve the readability of the accounts.

Materiality

Our audit approach was set out in our audit plan presented to the Audit Committee in January 2020. Overall materiality has been set at £65,880, approximately 2% of gross expenditure and performance materiality is set at £49,410, 75% of materiality. Our planned approach has not changed from that set out in our plan.

We report to management any difference identified over £3,300 which has been set at 5% of overall materiality. Below this threshold the adjustment is considered trivial.

Lastly we set a lower materiality level in respect of the remuneration report, given the interest to the users of the accounts. This was set at £2,500, linked to the bandings used.

Audit opinion

We are pleased to report that for the financial year ended 31 March 2020 we have issued an **unmodified audit opinion**.

- That the financial statements represent a true and fair view of the organisation for the year to 31 March 2020 and at the date of the statement of financial position
- Regularity – expenditure has been incurred in accordance with the purpose of OSCR
- Other prescribed matters (which include the audited information in the remuneration report)

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.
- Performed walkthrough procedures of key financial processes including income and expenditure recognition, journal postings, and payroll (as operated by OSCR)

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 place reliance on controls operating effectively as our audit is fully substantive in nature. We identified no material weaknesses or areas of concern from this work which would have caused us to alter the planned approach as documented in our plan.

Internal Audit

As set out in our external audit plan our audit approach is to comply with the ISA's and we do not place formal reliance on the work of the Scottish Government Internal Audit Directorate's, OSCR's internal audit provider during 2019/20. We have reviewed the internal audit plan and individual reports issued to date, to consider if any impact on our audit approach. Internal Audit have provided a substantial assurance internal audit opinion and report for 2020/21.

The findings of internal audit are consistent with our knowledge and experience of OSCR. From our review we are satisfied that there were no areas arising from the work of internal audit that would impact on our audit opinion or require specific disclosure in the annual governance statement. Internal Audit have sufficient capacity and capability to provide the internal audit service to OSCR.

Responding to significant risks

Risk area

Risk of fraud in expenditure recognition (as set out in FRC Practice Note 10)

Identified audit risks at planning

Operating expenditure is understated or not treated in the correct period (risk of fraud in expenditure). As payroll expenditure is well forecast and agreeable to underlying payroll systems, there is less opportunity for the risk of misstatement in this expenditure stream. We therefore focus on non-pay expenditure. We consider the risk to be particularly prevalent around the year end and therefore focus our testing on cut-off of non-pay expenditure.

Work completed

- Walkthroughs of the controls and procedures over other expenditure.
- Performed substantive testing (at an elevated risk level) expenditure recognised post year end to identify if there is any potential understatement
- Testing post year end bank statements and review of minutes to identify any potential unrecorded liabilities
- Reviewing any accruals and deferred income around the year end to consider if there is any indication of understatement of balances held through consideration of accounting estimate

Our conclusion

Based on our testing we conclude:

- We did not identify any exceptions in our cut-off testing of year end expenditure.
- We did not identify any exceptions in the completeness and accuracy of accruals, deferred income or provisions balances at the year end.
- Through our substantive procedures and sample testing we confirmed expenditure testing was in accordance with the nature of OSCR (regularity)

Risk area

Management override of controls

Identified audit risks at planning

As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override OSCR's controls for specific transactions.

We consider those key judgements that are most susceptible to significant audit risk of management override are those over expenditure recognition. These are areas where management has the potential to influence the financial statement through estimate and judgement.

Work completed

- Considered the design of controls in place over key accounting estimates and judgements through performance of walkthrough procedures.
- Reviewed accounting estimates for management bias / indication of fraud that could result in material misstatement. This included review of estimates as at 31 March 2020 and retrospective review of those estimates as at 31 March 2019.
- Journals testing including:
 - Assessment of the design of controls in place over journal entries, including journal preparation, authorisation and processing onto the financial ledger;
 - Risk assessment of the journals population to identify large or unusual journal entries, such as those that are not incurred in the normal course of business, or those entries that may be indicative of fraud or error that could result in material misstatement. We tested these journals to ensure they are appropriate and suitably recorded in the financial ledger;
 - Target testing of transactions around the financial year end, reviewing large journals and those which appear unusual to understand the rationale for the transaction.

Our conclusion

Based on our testing we conclude:

- There was no evidence of management override in our testing of controls.
- OSCR financial statements do not include material judgements or estimates.
- We did not identify any unusual or significant transactions throughout the financial year or during the financial close period which were out with the ordinary operations of OSCR.

Narrative elements of your annual accounts

In accordance with our responsibilities we have reviewed the narrative aspects of the annual accounts and report. We have considered the consistency of this narrative with our understanding of OSCR 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.

Performance Report

The accountability report is in line with our understanding of OSCR, in particular the vision and strategic priorities of OSCR.

The Accountable Officer's statement is clear and easy to read.

Risks are articulated and aligned to OSCR's internal risk reporting.

Overall Observations

OSCR provided the annual report and draft set of accounts in line with our audit timetable despite the increased challenges presented by the Covid-19 pandemic which required 100% remote working.

Graphics have been effectively utilised to provide visual representation of performance to report users.

Annual Report and Accounts include the performance report and accountability report (including remuneration and governance)

Remuneration and Staff Report

Has been prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions thereunder.

The Executive and Non-Executive members reflected in the report have been correctly identified in accordance with the FReM.

Governance Statement

As required by the FReM the Governance Statement is included in the Accountability Report and is in accordance with the FReM and SPFM.

There are no significant governance issues in the year which are required to be reported.

The statement is supported by individual assurances to the Accountable Officer over key internal controls.

Key aspects of your financial statements

We consider key aspects of your financial statements in relation to management judgements 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 our conclusions below.

No new International Financial Reporting Standards (IFRS) have been adopted in the year as the adoption of IFRS 16 for public bodies has been delayed by a year as a result of the Covid-19 pandemic. The Accounting Policies followed by OSCR are in accordance with the FReM.

In relation to the audit risk of fraud in respect of expenditure recognition we tested OSCR's cut-off arrangements and identified no issues with the recognition period of transactions or in accruals which could indicate a higher risk of potential fraud.

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



OSCR's accounts do not include any significant judgements or estimates.

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 2020/21. OSCR have completed work on a medium term financial strategy and considered various scenario plans over financial outlook.

Recognising OSCR's role as the Charity regulator for Scotland and the relationship with OSCR and Scottish Government we agree with management and the Accountable Officers assessment that OSCR meets the going concern criteria.

Commentary on OSCR's financial arrangements

Financial Position 2019/20

OSCR delivered its annual budget set by Scottish Ministers during 2019/20. Included within the year was specific investment to support OSCR in developing its digital strategy. The largest proportion of OSCR's costs continue to be on staff, with staff costs representing circa 80% of OSCR's running costs.



Corporate Plan

OSCR during the financial year approved the corporate plan (2020 to 2023). The plan set out four strategic outcomes: the public have confidence in charities, charities are well run and thriving, charities are at the heart of a vibrant and thriving Scotland and the charity regulator is a highly effective organisation.

Key projects include the digital strategy, knowledge management strategy and charity impact strategy. Underpinning the strategy will be annual operational plan. Included within the corporate plan is how OSCR will contribute to the national performance framework.

OSCR's joint working and Covid-19 response

OSCR's joint work with government, other public bodies and third sector organisations will be key to OSCR's success. For 2020/21 an immediate priority is to make sure that clear, consistent and comprehensive information, relevant to the present situation, is available to Scottish charities during the Covid-19 pandemic. As an organisation OSCR's resources need to be effectively targeted at supporting delivery of functions which are critical to supporting during Covid.

As an enabling regulator, OSCR aims to support the Scottish charity sector to operate to the very highest of standards and to make sure that public confidence, trust and understanding of charities remains strong.

OSCR aims gather and analyse information and data on the impact of the COVID 19 pandemic on Scottish charities and use this to inform and influence policy and practice on a local and national level.

2020/21 Budget setting

The budget set for 2020/21 is £3million which is the same as in prior years. OSCR have considered financial forecasts over the period of the new corporate plan. It is anticipated that funding will continue at the same level.

For OSCR this is then a balance between the ability to fund new initiatives whilst maintaining the services provided within the financial envelope. Investing in digital will allow OSCR's resources to be used in a different way going forward.

Follow up of external audit recommendations

During our 2019/20 audit we did not identify any recommendations for management which would be of significant risk to warrant inclusion in this final report. During the year we have followed up on previous external audit recommendations. The results of this work is summarised below.

Financial management

From review of Board meeting minutes, the level of scrutiny over financial information is not explicitly clear. Evidence of financial scrutiny at board level can be improved through more in-depth discussions and challenge and the capture within the minutes to the meeting. However, it is noted that the minutes and papers are publicly available which provides transparency and is good practice.

Follow up – Implemented, closed

This recommendation has been implemented. The finance information is now more clearly captured and discussions recorded.

Accountable Officer

Following the appointment of a Board Chair a succession plan should be in place to appoint a permanent Accountable Officer.

Follow up – Implemented, closed

This recommendation is closed. An Accountable Officer has been appointed on a permanent basis (the interim Accountable Officer who was in post during 2018/19)

Financial Sustainability (initially from 2017/18 and marked as ongoing in 2018/19)

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. . 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..

Follow up – Implemented, closed

OSCR have in place a corporate plan (2020 to 2023). As part of the corporate planning process the financial position was considered and how finances would support the priorities identified, including scenario planning. Whilst the budget for OSCR remains constrained and likely to stay at a flat level we consider OSCR management have done what they can based on financial forecasting.

Appendices

- Audit adjustments
- Audit fees and independence
- Fraud arrangements
- Communication of audit matters

Audit adjustments

Uncorrected and corrected misstatements

We are pleased to report that there were no uncorrected misstatements to the financial statements arising during our audit.

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.

There were a small number of minor disclosure adjustments to the draft accounts received for audit which were identified either by the finance team at SSSC or OSCR through the ongoing review process.

In addition, we noted minor disclosure and formatting changes which resulted from our review, all of which have been processed in the final annual report and accounts. None of these changes were considered material and/or significant in nature and helped to improve the readability of the accounts.

Audit fees and independence

External Audit Fee

Service	Fees £
External Auditor Remuneration	10,540
Pooled costs	2,730
Contribution to Audit Scotland costs	550
Contribution to Performance Audit and Best Value	-
2019/20 Fee	13,820

Fees for other services

Service	Fees £
We confirm we have received no non-audit fees for the 2019/20 external audit	Nil

Client service

We take our client service seriously and continuously seek your feedback on our external audit service. Should you feel our service falls short of expected standards please contact Joanne Brown, Head of Public Sector Assurance Scotland in the first instance who oversees our portfolio of Audit Scotland work (joanne.e.brown@uk.gt.com). Alternatively, should you wish to raise your concerns further please contact Jon Roberts, Partner and Head of Assurance, 30 Finsbury Square, London, EC2A 1AG. If your feedback relates to audit quality and we have not successfully resolved your concerns, your concerns should be reported to Elaine Boyd, Assistant Director, Audit Scotland Quality and Appointments in accordance with the Audit Scotland audit quality complaints process.

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 Financial Reporting Council'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 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

The term fraud refers to intentional acts of one or more individuals amongst management, those charged with governance, employees or third parties involving the use of deception that result in a material misstatement of the financial statements. In assessing risks, the audit team is 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 relations 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. Typically we do this when presenting our audit plan and in the form of management and those charged with governance questionnaires.
- 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.

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.

Anti-Money Laundering Arrangements

As required under the Money Laundering, Terrorist Financing and Transfer of Funds Regulations 2017 there is an obligation on the Auditor General (as set out in the planning guidance) to inform the National Crime Agency if she knows or suspects that any person has engaged in money laundering or terrorist financing. Should we be informed of any instances of money laundering at NHS Education for Scotland we will report to the Auditor General as required by Audit Scotland.

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance including establishing and maintaining internal controls over the reliability of financial reporting effectiveness and efficiency of operations and compliance with applicable laws and regulations.

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 work with OSCR to review specific areas of fraud risk, including the operation of key financial controls. We also examine the policies in place, strategies, standing orders and financial instructions to ensure that they provide a strong framework of internal control.

All suspected frauds and/or irregularities over £5,000 are reported to Audit Scotland by us as your auditors on a quarterly basis.

Communication of audit matters

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 below.

This document, our Annual Report is issued prior to approval of the financial statements and presents key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

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	•	•
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	•	•
Significant matters in relation to going concern. No matters on going concern identified.	•	•
Views about the qualitative aspects of OSCR's accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures. Set out on page 9 and 10 of this report.		•
Significant findings from the audit None identified.		•
Significant matters and issues arising during the audit and written representations that have been sought. Letter of representation obtained. No significant matters and issues identified.		•
Significant difficulties encountered during the audit No difficulties encountered.		•
Significant deficiencies in internal control identified during the audit None identified		•
Significant matters arising in connection with related parties None identified		•
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements None identified		•
Non-compliance with laws and regulations None identified.		•
Unadjusted misstatements and material disclosure omissions. None identified.		•
Expected modifications to the auditor's report, or emphasis of matter. No modifications to the report.		•



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our external audit. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the entity or all weaknesses in your internal controls.

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