

# **Office of the Scottish Charity Regulator**

[Report on the 2006-07 Audit](#)

18 July 2007

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# Executive Summary

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## Introduction

We have audited the financial statements of the Office of the Scottish Charity Regulator (OSCR) for 2006-07 and examined aspects of OSCR's performance and governance arrangements. This report sets out our key findings.

## Financial Statements

We have given an unqualified opinion on both the financial statements of OSCR for 2006-07 and on the regularity of transactions undertaken during the financial year. During the year, OSCR incurred expenditure of £2.576 million against a budget of £2.700 million. Staff costs accounted for 48% of total expenditure with administration (40%) and depreciation costs (12%) accounting for the remainder. OSCR incurred capital expenditure of £0.179 million against a budget of £0.200 million during the year.

OSCR's draft financial statements were presented for audit on 18 May 2007, significantly in advance of the prior year. The accounts and supporting working papers were of a good standard and, as a result, few adjustments were required to be processed following our audit.

## Governance

We found that OSCR's governance arrangements operated well and within a generally sound control environment. OSCR complies with the good practice guidance in relation to governance, as outlined in the Scottish Public Finance Manual, in so far as it is relevant to the role of OSCR. We identified a small number of areas for improvement in overall governance arrangements.

The Board chairman undertook a review of the performance of individual Board members, and of the Board overall, during the year in line with good practice. This review identified areas for development to improve overall Board performance, and the chairman is taking forward an action plan to address these matters. The Board's approach to performance assessment, however, has not yet been formalised and may require further development.

We found that OSCR's internal auditors complied with Government Internal Audit Standards and adopt a risk based approach in planning audit work.

## Performance

We carried out an overview of OSCR's arrangements in relation to the duty to deliver best value and efficiency in its operations.

OSCR is a young and relatively small organisation with limited resources and management capacity. This is the first year in which OSCR has fully implemented the requirements of the Charities and Trustee Investment (Scotland) Act 2005 following its change in status from Executive Agency to that of Non-Ministerial Department.

In keeping with the size and scale of its operations, OSCR does not yet have a formal process in place for best value or for measuring and monitoring efficiency. However, the Chief Executive regularly keeps these matters under review and has implemented a range of operational and structural changes that meet best value expectations.

## **The Way Forward**

Our findings and recommendations are summarised in an Action Plan (Appendix A) that accompanies this report. The Action Plan has been agreed with management and incorporates the management response to audit recommendations.

The report includes some specific recommendations to strengthen internal controls. It is the responsibility of the Board and Accountable Officer to decide the extent of the internal control system appropriate for the management of OSCR.

## **Acknowledgements**

We would like to take this opportunity to thank the staff who have been involved in this review for their assistance and co-operation.

This report is part of a continuing dialogue between OSCR and Grant Thornton and is not, therefore, intended to cover every matter which came to our attention. Our procedures are designed to support our audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in OSCR's systems and work practices.

The report is not intended for use by third parties and we do not accept responsibility for any reliance that third parties may place on. The report will be submitted to the Auditor General for Scotland and will be published by him on his website at [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**Grant Thornton UK LLP**  
**18 July 2007**

# Financial Statements

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## Our Responsibilities

We audit the financial statements and give an opinion on whether:

- they give a true and fair view, in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers, on the state of affairs of OSCR as at 31 March 2007 and of its net expenditure, recognised gains and losses and cash flows for the year then ended;
- they, and the part of the Remuneration Report to be audited, have been properly prepared in accordance with the Government Financial Reporting Manual (FReM) and directions made thereunder by the Scottish Ministers; and
- in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

We also review the Statement on Internal Control by:

- considering compliance with Scottish Executive guidance;
- considering the adequacy of the process put in place by the Accountable Officer to obtain assurances on systems of internal control; and
- assessing whether disclosures in the Statement are consistent with the information emerging from our normal audit work.

## Overall Conclusion

We have given an unqualified opinion on the financial statements of OSCR for the 2006-07 financial statements. We are able to conclude that the financial statements of OSCR give a true and fair view of the financial position for the period from 1 April 2006 to 31 March 2007 and that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and relevant guidance.

## Standard of accounts and supporting papers

OSCR's draft financial statements were presented for audit on 18 May 2007, significantly in advance of the prior year. The accounts and supporting working papers were of a high standard and, as a result, few adjustments were required to be processed following our audit.

A number of presentational amendments to the draft financial statements were recommended and accepted by management during the audit process. These changes are reflected in the final draft financial statements presented to the audit committee.

## Financial Performance

OSCR's Operating Cost Statement for the year records total resource expenditure for the financial year of £2.576 million. This total includes notional costs of £13,000 and depreciation charges of £0.300 million. The capital expenditure for the year was £0.179 million. Overall, the total expenditure of £2.755 million was £0.145 million under budget, representing 5% of available resources.

Staff costs accounted for 48% of total expenditure with administration (40%) and depreciation costs (12%) accounting for the remainder.

## Statement on Internal Control

The Statement on Internal Control sets out the arrangements established and operated for risk identification and management, proposed future development of arrangements, and review of effectiveness of the system of internal control.

We are satisfied that the Statement complies with Scottish Executive guidance, that the process put in place by the Accountable Officer to obtain assurances on systems of internal control is adequate and that the contents of the Statement are consistent with the information emerging from our normal audit work.

## ISA 260: Communication of Audit Matters to Those Charged with Governance

Our responsibilities in relation to the communication of audit matters to those charged with governance are covered in the International Standard on Auditing 260 and outcomes against the requirements of the Standard are contained in Appendix B. In this context, our audit has not identified any unadjusted errors that we need to bring to the Board's attention.

# Governance

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## Introduction

Corporate governance is the system by which organisations direct and control their functions and relate to their stakeholders, and incorporates the way in which an organisation manages its business, determines strategy and objectives and goes about achieving those objectives. It is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation. Three fundamental principles of corporate governance apply equally to all public sector bodies - openness, integrity and accountability.

As part of our 2006-07 audit, we assessed the adequacy of OSCR's governance arrangements against good practice standards for the public sector. We examined:

- the structures and processes for decision making;
- risk management and systems of internal control;
- arrangements for the prevention and detection of fraud and irregularities;
- standards of conduct, integrity and openness; and
- reporting arrangements and monitoring of OSCR's overall financial position.

## Key outcomes from our 2006-07 audit

We found that OSCR's governance arrangements operated well and within a generally sound control environment. OSCR complies with the good practice guidance in relation to governance as outlined in the Scottish Public Finance Manual in so far as it is relevant to the role of OSCR. We identified a small number of areas for improvement from our review:

- risk is assessed based on impact and likelihood but other factors such as the risk time horizon or its financial impact do not currently form part of the risk assessment process;
- some risks are allocated to the 'Senior Management Team' rather than to a specific 'owner'. Ownership of risks and the action required to mitigate the risks is an important element of good risk management; and
- there is no formal register of interests for Board members that is available for public inspection in line with ethical standards in public life.

**Action Plan Points 1-3**

The Board chairman undertook a review of the performance of individual Board members, and of the Board overall, during the year in line with good practice. This review identified areas for development to improve overall Board performance, and the chairman is taking forward an action plan to address these matters. The Board's approach to performance assessment, however, has not yet been formalised and may require further development.

***Action Plan Point 4***

**Internal audit**

We found that OSCR's internal auditors complied with Government Internal Audit Standards and adopt a risk based approach in planning audit work.



# Performance

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## Introduction

Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. As part of our annual audit we are required to plan reviews of aspects of the arrangements to manage performance, as they relate to economy, efficiency and effectiveness in the use of resources.

The Chief Executive and Board have a duty to ensure public resources are used economically, efficiently and effectively. These arrangements were extended in April 2002 to include a duty to ensure 'best value' in the use of resources.

## Best value and efficient government

We carried out an overview of OSCR's arrangements in relation to the duty to deliver best value and efficiency in its operations.

OSCR is a young and relatively small organisation with limited resources and management capacity. This is the first year in which OSCR has fully implemented the requirements of the Charities and Trustee Investment (Scotland) Act 2005 following its change in status from Executive Agency to that of Non-Ministerial Department.

In keeping with the size and scale of its operations, OSCR does not yet have a formal process in place for best value or for measuring and monitoring efficiency. However, the Chief Executive regularly keeps these matters under review and has implemented a range of operational and structural changes that meet best value expectations. Key achievements have included:

- successful implementation of the regulatory requirements of the Charities and Trustee Investment (Scotland) Act 2005 including the establishment of a Register of Charities;
- publication of a range of guidance for charities and professional advisors;
- publication of monthly performance statistics with performance reviewed at Senior Management Team and Board meetings. These statistics demonstrate improving organisational performance across a range of categories;
- introduction of an equalities policy and performance management arrangements for staff;
- implementation of effective risk management procedures;
- introduction of concordats with other regulators and key strategic partners.

**Action Plan Point 4**

**Grant Thornton UK LLP  
18 July 2007**

## Appendix A – Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
<b>Governance</b>					
1	Risk is assessed based on impact and likelihood but other factors such as the risk time horizon or its financial impact do not currently form part of the risk assessment process.	Low	OSCR should consider assessing the time horizon and financial impact of identified risks as part of its risk management approach.	We will consider this when next reviewing the Risk Register, which is undertaken on a regular basis.	31 December 2007
2	Some risks are allocated to the 'Senior Management Team' rather than to a specific 'owner'.	Low	OSCR should consider allocating risks to specific 'owners'.	We will consider this when next reviewing the Risk Register which is undertaken on a regular basis	1 October 2007
3	There is no formal register of interests for Board members that is available for public inspection in line with ethical standards in public life.	Low	OSCR should consider introducing a formal Register of Interests for Board members that is available public inspection.	The register has existed since April 2006. It will be updated and published by 1 October 2007.	1 October 2007
4	The Board's approach to performance assessment has not yet been formalised and may require further development.	Medium	The Chairman and the Board should formalise its procedures for measuring both its performance and the performance of individual members.	The Board will consider further development and formalisation of its approach at their next meeting in October 2007 for finalisation by 31 December 2007.	31 December 2007
<b>Performance</b>					
5	There is no formal approach to best value or efficient government.	Medium	OSCR should set out a more formal plan on how it intends to measure, monitor and report on the achievement of best value and efficiency going forward.	We will develop a more formal plan, with a first draft available by 1 January 2008.	31 January 2008

## Appendix B - Communication of audit matters to those charged with governance

### ISA 260 – Communication of audit matters to those charged with governance

Under ISA 260, we are required to consider matters of governance interest that arise from the audit of the financial statements and communicate them with those charged with governance. The areas considered are as follows:

- a) Relationships that may bear on the Grant Thornton’s independence and the integrity and objectivity of the audit engagement lead and audit staff;
- b) The overall approach to the audit including any limitations thereon, or any additional requirements;
- c) The selection of, or changes in, significant accounting policies and practices that have, or could have a material effect on the entity’s financial statements;
- d) The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements;
- e) Audit adjustments, whether recorded or not by the entity that have, or could have a material impact on the entity’s financial statements; and
- f) Those uncorrected misstatements aggregated by the auditor during the audit that were determined by management to be immaterial both individually and in aggregate to the financial statements as a whole.

### Key Findings

We summarise our key audit findings in relation to the above areas.

Ref	Area	Key Messages
A	Independence	<p>We are able to confirm our independence and objectivity as auditors and note the following:</p> <ul style="list-style-type: none"> <li>• we are independently appointed by Audit Scotland;</li> <li>• we comply with the Auditing Practices Board’s Ethical Standards; and</li> <li>• we have not performed any non Code of Audit Practice (the Code) or advisory work during the year.</li> </ul>

Ref	Area	Key Messages
B	Approach to the audit	<p>Our approach to the audit was set out in our 2006-07 audit plan. We have planned our audit in accordance with International Auditing Standards and the Code. Other key factors to highlight include:</p> <ul style="list-style-type: none"> <li>we consider the materiality of items in the financial statements both in determining the approach to audit them and in determining the impact of any errors;</li> <li>we have been able to place appropriate reliance on the key accounting systems operating at OSCR for final accounts audit purposes only; and</li> <li>we have been able to place reliance on the work of internal audit in respect of the key accounting systems.</li> </ul>
C	Accounting policies and practices	<p>We consider that OSCR has adopted appropriate accounting policies in the areas covered by our testing. Accounting policies adopted were in accordance with the Government Financial Reporting Manual (FRM).</p> <p>The Board has considered and confirmed that OSCR remains a going concern. The Board is asked to confirm this through the Letter of Representation.</p>
D	Material risks and exposures	<p>The Board has considered and confirmed that it has no material risks and exposures which should be reflected in the financial statements. The Board is asked to confirm this in the Letter of Representation</p>
E	Audit adjustments and unadjusted errors	<p>We identified several minor disclosure amendments and reclassifications to improve the presentation of the accounts. OSCR has agreed to adjust the accounts.</p>

## Accounting issues

### Intangible fixed assets

Our initial review of the financial statements identified that there were no intangible fixed assets recorded in the balance sheet. A subsequent review by OSCR found software and other intangible fixed assets with a net book value of £354,000 (£509,698 for 2005-06) recorded within the tangible fixed assets balance. The balance sheet was subsequently amended to separately record intangible assets.

### Closure on estimates

A number of year end creditor accruals have been based on estimates where OSCR has yet to be invoiced for the goods or service received during the financial year. Our review confirmed that the basis of estimation adopted by OSCR in these cases was reasonable. There is a higher risk of error in relation to these balances but we do not consider this risk to be material.

There were no unadjusted differences within the financial statements.