



Office of the Scottish Charity Regulator

Report on the 2007-08 Audit

10 June 2008

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1 Introduction

1.1 Purpose of the Report

This report has been prepared for the benefit of discussion between Grant Thornton and the Office of the Scottish Charity Regulator (OSCR).

We have audited the financial statements of OSCR for 2007-08, and examined aspects of OSCR's performance and governance arrangements. This report sets out our key findings.

The report is also used to report to those charged with governance to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) (ISAUK) 260.

1.2 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 2008 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 (FRoM) 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.

1.3 Independence and robustness

Ethical standards require us to give you full and fair disclosure of matters relating to our independence.

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 APB Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

1.4 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.

2 Executive Summary

2.1 Financial results

During the year, OSCR incurred expenditure of £2.732 million against a budget of £2.800 million, giving an underspend of £68,000 for the year (2.4%)

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

OSCR incurred capital expenditure of £0.228 million against a budget of £0.230 million during the year.

2.2 Financial Statements

We have given an unqualified opinion on both the financial statements of OSCR for 2007-08 and on the regularity of transactions undertaken during the financial 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.

There was no unadjusted audit differences remaining in the financial statements.

2.3 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 reviewed governance arrangements in relation to: financial management and budgetary control; compliance with the Data Protection Act 1998; and business continuity arrangements. Our review considered OSCR's arrangements to be adequate.

2.4 Performance

OSCR is committed to achieving best value in its operations and has a best value approach that approximates to the guidance issued by the Scottish Government.

During 2007-08, OSCR completed the best value checklist issued by the Scottish Government.

OSCR has been set an efficiency target by the Scottish Government over the next 3 years. The target requires OSCR to deliver efficiencies of £70,000 each year to 2010-11. OSCR should have a plan in place to deliver this target.

3 Financial Results

3.1 Operating Cost Statement

Table 1 highlights the financial results for OSCR for the year ending 31 March 2008, showing the outturn for the year versus budget. The overall outturn for the year was £2.960 million versus the budgeted figure of £3.030 million giving an underspend of £70,000 (2007: £145,000)

Table 1: Financial Results for 2007-08 (£'000)

	2008	Budget
Staff Costs	1,507	1,511
Administration Costs		
Other Administration Costs	899	960
Cost of Capital and Depreciation	312	315
Notional Costs	14	14
	<u>2,732</u>	<u>2,800</u>
Capital Expenditure		
	228	230
Total Outturn	<u>2,960</u>	<u>3,030</u>

The revenue budget shows total expenditure of £2.732 million, giving an underspend of £68,000 versus the budgeted figure of £2.8 million. The bulk of the underspend relates to unutilised budgets for legal costs relating to appeals and judicial reviews.

The original baseline budget for 2007-08 was £3.6 million, with £0.6 million remaining unallocated during the year. This was returned during to the Scottish Government following the Spring budget revision.

3.2 Capital

The capital budget shows total expenditure of £0.228 million, giving an underspend of £2,000 versus the budgeted figure of £0.230 million. The bulk of the capital expenditure was for IT systems and software licences.

4 Financial Statements

4.1 Audit Opinion

We have given an unqualified opinion on the financial statements of OSCR for the 2007-08 financial statements. We are able to conclude that the financial statements of the OSCR give a true and fair view of the financial position for the period from 1 April 2007 to 31 March 2008 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.

4.2 Audit Quality

The draft financial statements were presented for audit on 15 May 2008.

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.

4.3 Statement on Internal Control

The Statement on Internal Control sets out the arrangements established and operated by RBGE for reviewing the effectiveness of the system of internal control and the identification and management of risk.

We are satisfied that the Statement complies with Scottish Government 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.

4.4 Misstatements identified by the audit

There are no adjusted or unadjusted audit misstatements to report.

We identified several minor disclosure amendments and reclassifications to improve the presentation of the accounts. The Accountable Officer has agreed to adjust the accounts.

5 Governance

5.1 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 2007-087 audit, we assessed the adequacy of OSCR's governance arrangements against good practice standards for the public sector. We examined:

- financial management and budgetary control arrangements;
- compliance with the Data Protection Act 1998;
- business continuity; and
- progress implementation of prior year recommendations.

5.2 Findings

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 noted that OSCR had made good progress in implementing prior year recommendations, with 4 out of 5 agreed recommendations being implemented in line with agreed timescales.

Appendix B

5.3 Internal Audit

The Scottish Government Internal Audit Service continued to provide internal audit services during 2007-08.

The Internal Auditors concluded

6 Performance

6.1 Our Responsibilities

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 Accountable Officer has 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.

6.2 Best value

During 2007-08, OSCRE updated its approach to best value by completing the Scottish Government's best value checklist.

The checklist confirms that the arrangements for best value at OSCR are well developed for the majority of the best value principles.

6.3 Efficient government

The Scottish Government has set OSCR an efficiency saving target of £210,000 over the next 3 years. Table 3 highlights the savings targets RBGE has to achieve for each year:

Table 3: Efficiency targets for three year period to 2010-11

Year	£
2008-09	70,000
2009-10	70,000
2010-11	70,000
Total	210,000

Source: Efficiency Delivery Plans (Scottish Government)

OSCR will require to have a plan in place to achieve the efficiencies set by the Scottish Government. Procedures will be required to both measure and report the efficiency savings generated from OSCRs plan.

Action plan point 1

A Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation Date
Performance					
	OSCR has been set an efficiency savings target of £210,000 over the 3 years to 2010-11.	High	OSCR should have a plan in place to achieve the efficiency savings target set by the Scottish Government. Procedures should be in place to measure achievements against the efficiency target.		

B Follow up review

No	Finding	Risk	Recommendation	Management Response and Implementation Date	Position at March 2008
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	No longer accepted
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	Implemented
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	Implemented

No	Finding	Risk	Recommendation	Management Response and Implementation Date	Position at March 2008
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	Implemented
	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	Implemented



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