



## **Office of the Scottish Charity Regulator**

2010-11 Audit  
Annual Report to the Board and the Auditor General for Scotland

7 June 2011

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# 1 Executive Summary

## **Purpose of the report**

- 1.1 We have audited the financial statements of the Office of the Scottish Charity Regulator (OSCR) for 2010-11, and examined aspects of OSCR's performance and governance arrangements. This report sets out our key findings.
- 1.2 This report meets the mandatory requirements of the Code of Audit Practice and International Standard on Auditing 260 (ISA 260) to report the outcome of the audit to 'those charged with governance', designated as the Audit Committee. The requirements of ISA260, and how we have discharged them, are set out in more detail at Appendix A.

## **Audit conclusions**

### **Financial results**

- The Operating Cost Statement for the year recorded net operating costs of £2.9 million.
- In 2010-11, OSCR's expenditure was £185,000 below its revised annual budget of £3,150,000 leaving OSCR within the regularity limit.
- Significant early retirement costs of approximately £101,000 were incurred in the year, although these were offset by cost savings in administration costs and delays in filling vacancies.
- Looking ahead, OSCR is considering the impact of any future cuts in the budget as part of its efficiency review programme.

### **Financial Statements**

- We intend to issue an unqualified audit report on the financial statements for the year ending 31 March 2011
- No accounting adjustments were identified following our audit and the draft accounts and working papers were of a high standard.

### **Governance**

- The financial planning and budgetary processes are well developed and effective
- OSCR has responded well to the finding of Audit Scotland's report on the 'Role of Boards'
- OSCR has put sufficient arrangements in place for reporting under the Public Services Reform (Scotland) Act 2010
- The current Chief Executive's term of office ends in September 2012 and a key task for the 2011-12 financial year will be the appointment of new Chief Executive

### **Performance**

- OSCR is fully committed to the principles of Best Value and is open and transparent about its performance
- OSCR reviews all Audit Scotland national reports and takes action on recommendations relevant to its performance
- OSCR exceeded its efficiency savings targets for the year.

### **Use of this report**

- 1.3 This report has been prepared solely for use by OSCR to discharge our responsibilities under the Code of Audit Practice, and should not be used for any other purpose. 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.
- 1.4 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 it. 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).

### **Acknowledgements**

- 1.5 We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the staff of OSCR, in particular to the Head of Corporate Services and the Finance Manager.

**Grant Thornton UK LLP**

**June 2011**

## 2 Financial results

### Operating cost statement

- 2.1 For the year ending 31 March 2011, the net operating costs of OSCR was £2.9 million. Table 1 highlights the financial results for the year.

**Table 1: Financial Results for 2010/11 (£'000)**

	2011	2010 (restated)
Staff costs	1,952	1,827
Other administration costs	792	872
Depreciation	169	165
<b>Net operating costs</b>	<b>2,913</b>	<b>2,864</b>

Source: 2010-11 financial statements

- 2.2 Staff costs have increased by £125,000 (6.9%) which is mainly due to the costs of voluntary early severance packages for two members of staff at a total cost of £101,000.
- 2.3 Other administration costs, have decreased by £80,000 for supplies and services, reflecting the organisation's efficiency drives to reduce expenditure. Depreciation charges are similar to last year as there have been no significant additions to the capital base.

### Budget outturn

- 2.4 For 2010-11, OSCR's expenditure was £185,000 below its revised budget of £3,150,000 (5%) leaving OSCR within the regularity limit.
- 2.5 This result has been achieved through lower than expected staff costs resulting from delays in staff recruitment following the introduction of revised Scottish Government recruitment procedures. There has also been savings generated in procurement and contracts.

### Looking forward

- 2.6 OSCR has received budget approval from the Scottish Ministers of £3.2 million for 2011-12. A budget has been set to achieve the aims of the organisation within the budgetary limits.
- 2.7 Looking forward, OSCR is currently considering the impact of potential changes to the budget following the spending review of the Scottish Government. Management have undertaken scenario planning exercises and are looking at options in responding to any reductions in the baseline budget.

## 3 Financial statements

### Introduction

- 3.1 This section provides a summary of findings arising from our audit of the financial statements. This includes matters arising from our evaluation of key controls and comment on OSCR's overall financial position.
- 3.2 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 2002 and directions made thereunder by the Scottish Ministers, on the state of affairs of OSCR as at 31 March 2011 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
  - 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.
- 3.3 We also review the Statement on Internal Control by:
- considering compliance with Scottish Government guidance
  - considering the adequacy of the process put in place by the Accountable Officer to obtain assurances on systems of internal control
  - assessing whether disclosures in the Statement are consistent with the information emerging from our normal audit work.

### Key risks

Key risk from the AAM	Work completed
<p><b>Cost of Capital</b></p> <p>The 2010-11 Government Financial Reporting Manual (FReM) no longer requires bodies to account for the cost of capital within their accounts from 2010-11.</p> <p>In accordance with International Accounting Standard 8, Accounting policies, changes in accounting estimates and error, this should be treated as a change in accounting policy and a prior year adjustment is required.</p>	<p>We reviewed the prior year adjustments and discloses processed by OSCR.</p> <p>We found the adjustment to be correct, and adequately disclosed in Note 2 to the financial statements.</p>

### **Audit conclusions**

- 3.4 We intend to provide an unqualified opinion on the financial statements, and on the regularity of transactions undertaken during the year, following approval of the accounts by the Audit Committee and the Board.

### **Matters arising from the financial statements audit**

- 3.5 We were presented with draft accounts on 16 May 2011, in line with the timetable. The working papers provided continue to be of good quality.
- 3.6 There are no adjusted or unadjusted misstatements to report. We have asked OSCR to review their prepayment policy to ensure it remains appropriate for the size of the organisation.
- 3.7 We recommended a number of minor changes to the presentation of the financial statements, and these have been processed by management.

### **Evaluation of key controls**

- 3.8 We have undertaken sufficient work on key financial controls for the purpose of designing our programme of work for the financial statements audit. Our evaluation of OSCR's key financial control systems did not identify any control issues that present a material risk to the accuracy of the financial statements.
- 3.9 We carried out a high level review of the general IT control environment as part of the overall review of the internal control system and concluded that there were no material weaknesses within the IT arrangements that could adversely impact on our audit of the accounts.
- 3.10 Internal audit services during 2010-11 were provided by the Scottish Government Internal Audit Division. The Internal Auditors have provided a substantial assurance opinion in respect of risk management, control and governance arrangements for 2010-11.

### **Statement on Internal Control (SIC)**

- 3.11 The Statement on Internal Control sets out the arrangements established and operated by OSCR for reviewing the effectiveness of the system of internal control and the identification and management of risk. We have examined OSCR's arrangements and processes for compiling the SIC. In addition, we read the SIC and considered whether the statement is in accordance with our knowledge of OSCR.
- 3.12 We reviewed the draft SIC and are satisfied that it complies with guidance contained in the Scottish Public Finance Manual 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 obtained from our normal audit work.

### **Annual report**

- 3.13 We considered OSCR's arrangements for compilation and submission of the annual report and received a complete draft annual report in sufficient time to undertake the required audit procedures prior to reporting to the Audit Committee.

- 3.14 We reviewed the draft annual report and are satisfied that the content of the annual report, including the remuneration report, is in accordance with the Government Financial Reporting Manual, and our knowledge of OSCR.



## 4 Governance

### Introduction

- 4.1 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.
- 4.2 As part of our 2010-11 audit, we assessed the adequacy of OSCR's governance arrangements against good practice standards for the public sector. Overall, 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.
- 4.3 Our Audit Approach Memorandum for 2010-11 set out the key risks relating to the governance aspects of our audit. Exhibit two below highlights the work completed against each risk area.

Key risk from the AAM	Conclusions
<p><b>Audit Scotland – Board effectiveness outcome</b></p> <p>Audit Scotland visited OSCR in September 2009 as part of their study on the Role of Boards. The study aims to assess the role and effectiveness of boards in public bodies and was published in 2010.</p> <p>The general points raised by the report include:</p> <ul style="list-style-type: none"> <li>• Chief executives and their boards have parallel lines of accountability and this can cause confusion over who leads the organisation unless the separate roles are well defined and understood</li> <li>• There are concerns about the recruitment of board members, including the falling number of applicants, the length of the recruitment process and the diversity of applicants.</li> <li>• How Board's monitor and manage risk.</li> </ul>	<p>Board members have been provided with a copy of the report and it has been discussed in Board meetings and at the audit committee.</p> <p>There are plans in place for Board members to complete the self-assessment checklist in the report, and to use this as a basis for considering the performance and future direction of the Board.</p> <p>There have been a number of changes in the make up of the Board during 2011-12, and a new Chair has been appointed. In addition, there will be a new Chief Executive appointed in 2011-12.</p>

Key risk from the AAM	Conclusions
<p><b>Public Service Reform Act</b></p> <p>The Public Services Reform (Scotland) Act 2010 received Royal Assent on 28 April 2010. Part 3 of the Act will require OSCR to publish a statement of expenditure which has been incurred during the financial year in relation to: public relations, overseas travel, hospitality and entertainment, external consultancy. In addition, disclosures of persons earning over £150,000 will be required</p> <p>Draft guidance has been published by the Scottish Government on how public bodies should respond to Part 3 of the Act.</p>	<p>OSCR has enacted the requirements of the Act from February 2011, and publish all relevant expenditure categories and all payments over £25,000 on a monthly basis on their website.</p> <p>An annual statement will also be prepared and published to comply with the requirements of the Act.</p>

## 5 Performance

### Introduction

- 5.1 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.
- 5.2 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.

### Best value

- 5.3 During 2010-11, OSCR updated its approach to best value by updating the Audit Scotland best value checklist that was completed in the prior year. The checklist confirms that the arrangements for best value at OSCR are well developed for the majority of the best value principles.
- 5.4 Our review of the update report confirms that OSCR continues to embed best value in its operations. Issues identified in the update are being fed into the 2011-14 Corporate Plan and OSCR has completed a 2011-14 best value plan to run alongside this. The new best value plan is to be presented to the June audit committee.

### Efficient government

- 5.5 The Scottish Government has set OSCR a target to achieve £70,000 in efficiency savings each year from 2007-08 to 2010-11. Quarterly reports on the progress of achieving the efficiency targets are produced by the Head of Finance and reviewed by management.
- 5.6 For 2010-11, OSCR has reported savings under the efficiency plan of £83,000, achieved from:
- use of collaborative contracts (£28,000)
  - procurement savings (£44,000)
  - asset rationalisation (£11,000)

### Business objectives

- 5.7 OSCR publishes its business objectives in Appendix 2 of the Annual Report and Accounts. Our review of the business objectives noted that the majority of targets were achieved with the exception of those targets relating to compliance in returning annual returns and accounts by charities. This has mainly been due to changes in the policies adopted by OSCR towards accounts compliance.

### Audit Scotland National Reports

- 5.8 Audit Scotland periodically undertakes national studies on topics relevant to the performance of central government bodies. While the recommendations from some of the

studies may have a national application, elements of the recommendations are also capable of implementation at local level, as appropriate.

- 5.9 The Head of Corporate Services reviews all Audit Scotland national reports and a summary of each relevant report is prepared for the audit committee. As part of our audit, we have considered OSCR's response to those relevant national reports issued during the year.

Report	Response
<b>Improving Energy Efficiency: a follow up</b>	OSCR has developed a Carbon Management Plan in association with the Carbon Trust. In addition, OSCR has initiated a number of measures to reduce energy consumption.
<b>The Cost of Public sector pensions in Scotland</b>	OSCR is part of the Civil Service Pension Scheme and staff will be impacted by any changes in pension scheme rules.

### **Improving Public Sector Purchasing**

- 5.10 In July 2009, Audit Scotland published a report, Improving Public Sector Purchasing, which made a number of recommendations for public bodies to improve procurement practices. As part of our audit, we have consider OSCR's response to the report.
- 5.11 Currently OSCR spends around £700,000 in procurement exercises each year, the bulk of which is through national government collaborative contracts. A procurement strategy is in place for purchases initiated by OSCR themselves. Our review of recent contracts, including the integrating reporting package contract, concluded that procurement policies are appropriate and operating effectively.
- 5.12 We note that OSCR is participating in the Scottish Government's Procurement Capacity Assessment programme. Due to the size of the organisation, participation is carried out through the completion of best practice indicators (BPI).

## A The small print

### Purpose of memorandum

This Report has been prepared for the benefit of discussions between Grant Thornton, the Audit Committee and the Board of OSCR.

The purpose of this memorandum is to highlight the key issues affecting the results of OSCR and the preparation of the organisation's financial statements for the **Error! Reference source not found.** 31 March 2011.

This document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

We would point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of the organisation.

This memorandum is strictly confidential and although it has been made available to management to facilitate discussions, it may not be taken as altering our responsibilities to the organisation arising under the Code of Audit Practice.

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).

### Responsibilities of the Board, Accountable Officer and auditors

The Board and Accountable Officer are responsible for the preparation of the financial statements and for making

available to us all of the information and explanations we consider necessary. Therefore, it is essential that the Board and Accountable Officer confirm that our understanding of all the matters in this memorandum is appropriate, having regard to their knowledge of the particular circumstances.

### Clarification of roles and responsibilities with respect to internal controls

OSCR's management is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the Board and Accountable Officer that it has done so.

The Board and Accountable Officer are required to review the organisation's internal financial controls. In addition, they are required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk.

The Board and Accountable Officer should receive reports from management as to the effectiveness of the systems they have established as well as the conclusions of any testing conducted by internal audit or ourselves.

We have applied our audit approach to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as

part of our testing, we identify any control weaknesses, we will report these to you.

In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We would be pleased to discuss any further work in this regard with the Board and Accountable Officer.

### 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 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.

In accordance with best practice, we analyse our fees below:

	£ incl VAT
Grant Thornton UK LLP	13,000
Audit Scotland fixed charge	1,400
Total	14,400



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