

# Office of the Scottish Charity Regulator

## Annual report on the 2011/12 audit



Prepared for Office of the Scottish Charity Regulator's Audit Committee and the Auditor General for  
Scotland

October 2012

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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# Key messages

## 2011/12

The financial challenges facing the Scottish public sector are well documented, with public bodies facing deep and prolonged cuts in funding. In 2011/12 we assessed the key strategic and financial risks being faced by the Office of the Scottish Charity Regulator (OSCR). We audited the financial statements which included an assessment of the key systems of internal control and consideration of how risks in these systems could impact on the financial statements. This report sets out our key findings.

OSCR is a Non-Ministerial Department, and was created in April 2006 in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005. As a Non-Ministerial Department, OSCR is an independent body and part of the Scottish Administration, not the Scottish Government.

OSCR is the independent registrar and regulator for Scottish Charities. It has a statutory function to determine the charitable status of bodies, keep the public register of charities, to facilitate and monitor compliance by charities, and to identify and investigate apparent misconduct in the administration of charities, taking remedial or protective action as appropriate. It is responsible for regulating over 23,000 Scottish Charities including community groups, religious charities, schools, universities, further education colleges, museums, grant-giving charities and major care providers.

OSCR also has a duty to give information or advice, or to make proposals, to Scottish Ministers on matters relating to OSCR's functions.

## Financial Statements

We have given an unqualified opinion on the financial statements of OSCR for 2011/12. We have also concluded that in all material respects, the expenditure and income shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers.

## Financial Position and use of resources

OSCR achieved a net under spend of £0.241million. This is the difference between the net outturn of resource expenditure of £3.046 million and resource budget of £3.287 million.

## Governance and accountability

In 2011/12 OSCR had sound corporate governance structures in place. We examined the key financial systems underpinning the organisation's control environment and concluded that they operated sufficiently well for us to place reliance on them.

## Outlook

As a publicly funded organisation, OSCR has been affected by the recent public spending cuts and its 2012-13 budget allocation is a 9% reduction on the previous year's figures. This level of reduction is in line with that being experienced by a significant number of public bodies.

OSCR is still developing as an organisation and planning for this while improving the services it provides to its stakeholders within the reduced resourcing levels adds to the complexities of financial planning. The introduction of the OSCR on-line project, which will improve the way charities report to OSCR is likely to require investment in 2012-13. The challenge for OSCR will be prioritising and restructuring its frontline activities to ensure that it can meet the requirements to fund this.

# Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of the Office of the Scottish Charities Regulator (OSCR). The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
2. In this report we focus on the financial statements and any significant findings from our wider review of governance and accountability.
3. This report is addressed to the Audit Committee and the Auditor General for Scotland, and should form a key part of discussions with audit committees. Reports should be made available to the Scottish Parliament, other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
4. This report will be published on our website after consideration by the Audit Committee.
5. The management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

# Financial statements

6. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
7. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
  - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
  - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
  - the regularity of the expenditure and income.
8. We review and report on, as appropriate, other information published with the financial statements, including the management commentary, performance and business objectives, annual governance statement, and the remuneration report. This section summarises the results of our audit on the financial statements.

## Audit opinion

9. We have given an unqualified opinion that the financial statements of OSCR give a true and fair view of the state of the body's affairs for the year to 31 March 2012.
10. OSCR are required to follow the 2011/12 Government Financial Reporting Manual (the FReM), and we confirmed that the financial statements have been properly prepared in accordance with the FReM. We also confirmed that relevant parts of the remuneration report had been properly prepared and that information given in the management commentary and performance and business objectives was consistent with the financial statements.
11. We also reviewed the Governance Statement and concluded that it complied with Scottish Government Guidance.

## Regularity

12. In accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000, we have also provided an opinion, that in all material respects, the expenditure and receipts in the financial statements were incurred or applied in accordance with applicable enactments and guidance.

## Accounting issues

13. We were satisfied that the financial statements had been prepared in accordance with the accounts direction from Scottish Ministers, and the FReM.

## Accounts submission

14. The financial statements were submitted for audit on 14 May, in accordance with a pre-agreed timetable. The audit fieldwork was completed on 25 May and matters arising were discussed on a regular basis with OSCR's Finance Manager. The final clearance meeting was held on 30 May, with our ISA 260 report being presented to the Audit Committee on 11 June. The financial statements were signed by the Chief Executive, as accountable officer, on 27 June 2012. The annual report and accounts were laid before Parliament on 6 August 2012.
15. Both the draft accounts and working papers presented for audit were comprehensive and of a good quality. We recommended a number of minor changes to the presentation of the financial statement, and these have been processed by management. There are no unadjusted misstatements to report.

## Sustainability Report

16. All relevant bodies were encouraged to produce a sustainability report in accordance with the Scottish Government's Public Sector Sustainability Reporting Guidance (January 2012) in 2011/12. This guidance is non mandatory, however it represents good practice and central government bodies were encouraged to adhere to it. The sustainability report should contain:
  - a simple overview commentary covering a body's performance in the reported year along with an overview of forward plans
  - a table of financial and non-financial information covering the body's emissions, waste, water and any other finite-resource consumption for the financial year to which it relates.
17. Public bodies in Scotland are bound by the Climate Change Public Bodies Duties set out in Part 4 of the Climate Change (Scotland) Act 2009. Whilst the Act does not require reporting on the duties, the Public Bodies Duties Guidance encourages a voluntary approach to reporting.
18. OSCR demonstrated good practice in producing a sustainability report for 2011/12.

## Outlook

19. There have been no significant changes to the 2012/13 FReM that are expected to have an impact on OSCR's annual financial accounts.



# Financial position

20. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
21. Auditors consider whether audited bodies have established adequate arrangements and examine:
  - financial performance in the period under audit
  - compliance with any statutory financial requirements and financial targets
  - ability to meet known or contingent, statutory and other financial obligations
  - responses to developments which may have an impact on the financial position
  - financial plans for future periods.
22. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

## Financial results

23. The Scottish Government sets a resource budget for the year for OSCR which originates from the spending review settlement and is subsequently approved in the Budget Bill. During the year, any revisions are approved in the autumn and spring. OSCR is expected to manage its budget in accordance with its framework agreement with the Scottish Government.
24. Net operating costs during 2011/12 were £2.788 million and capital expenditure was £0.258 million. Cash funding of £3 million was received from the Scottish Consolidated Fund.
25. Spending on operating costs was within the final budget set, mainly as a result of careful in year expenditure monitoring where budget adjustments, slippages and efficiencies have been used to balance each other out within the overall allocation.
26. Although there was no requirement for public bodies to prepare a formal efficiency plan for 2011-12 they were expected to deliver savings of at least 3% against their 2010-11 DEL baseline budget. The target level of efficiencies to be achieved by OSCR in 2011-12 was £109,000. This was a challenging target when set against an existing background of extensive use of shared services and a high uptake of collaborative procurement opportunities over the years.
27. For the period 2011-12, OSCR have internally reported efficiency savings totalling £111,000. Savings have mainly arisen from collaborative procurement and reduced administration support costs.

## Budgetary control

28. Our review of OSCR's budget setting and monitoring arrangements was satisfactory. We found that senior management were receiving budget monitoring reports on a monthly basis. The Board also received summarised finance reports at each meeting.

## Financial position

29. The Statement of Financial Position shows OSCR had net assets of £0.167 million at 31 March 2012, compared with a net liability of £0.061 million as at 31 March 2011. The movement is largely due to an increase in non-current assets during the year.

## Outlook

### 2012/13 budget

30. OSCR has received budget approval from the Scottish Ministers of £3.1 million for 2012-13 which equates to a budget reduction of 9%.
31. As a public body OSCR is required to maximise value for money and to continually improve the efficiency with which it undertakes its statutory functions. In 2012-13 OSCR proposes to undertake a comprehensive review of its Corporate Plan and consider the scale, scope and focus of its activities, in light of its three year Comprehensive Spending Review allocation.
32. 'OSCR online', a major new IT system will go live in 2012-13 enabling charities to complete their annual monitoring returns electronically. There are a number of challenging management decisions to be made relating to future online services, including investment in the second phase of 'OSCR on-line' and investment in IT infrastructure and research in the years ahead.

# Governance and accountability

33. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
34. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
35. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
  - corporate governance and systems of internal control
  - the prevention and detection of fraud and irregularity
  - standards of conduct and arrangements for the prevention and detection of corruption
36. In this part of the report we comment on key areas of governance.

## Corporate governance

37. As part of our 2011-12 audit, we assessed the adequacy of OSCR's governance arrangements against good practice for the public sector. We found that overall, corporate governance arrangements operated effectively during 2011-12. OSCR complies with the good practice guidance in relation to governance, as outlined in the Scottish Public Finance Manual.
38. In 2011-12 the Audit Committee undertook a review of corporate governance arrangements within OSCR. In conducting the review, reference was made to the *Role of boards* published by the Auditor General in September 2010, and also to the Good Governance Standard for Public Service. The review highlighted that OSCR appears to have proportionate arrangements in place to support effective corporate governance, although there is scope to make improvements in some areas as outlined below:
  - the Audit Committee measures its own effectiveness by means of an annual report to the Board but there is no formal assessment of the Board's own performance. Consideration is to be given to introducing an annual assessment of performance at Board level.

- the Board currently holds one Annual Open meeting but has agreed that in future a series of events should be piloted throughout Scotland to assess the impact in terms of accessibility.

39. We will monitor progress of these developments in 2012-13.

### Internal control

40. While we concentrate on significant systems and key controls in support of the opinion on the financial statements, our wider responsibilities require us to consider the financial systems and controls of audited bodies as a whole. The extent of this work is informed by our assessment of risk and the activities of internal audit.
41. Overall the systems of internal control were operating effectively during 2011/12. This enabled us to take the planned assurance on these systems for the audit of the financial statements.
42. As part of our risk assessment and planning process we assessed the Scottish Government Internal Audit Division, OSCR's internal auditors, and concluded that they operate in accordance with the Government Internal Audit Manual. We were therefore able to place reliance on their work in a number of areas as detailed within our annual audit plan.
43. In their annual report for 2011/12, Scottish Government Internal Audit Division provided their opinion that, based on the internal audit work undertaken during the year, there was substantial assurance in respect of OSCR's risk management, control, and governance arrangements.
44. In the interests of an efficient audit approach we also rely on assurances received from the auditor of the Scottish Government on work performed on the Scottish Government Central systems that are used by OSCR. This approach ensures we are delivering an efficient co-ordinated audit that avoids unnecessary duplication and expense.
45. The central systems assurance letter provided by the auditor of the Scottish Government provided unqualified audit opinions on both the payroll and financial services assurance reports. However, the key findings section highlighted that the payroll assurance report drew attention to weaknesses in segregation of duties where staff had access rights to both the HR and Payroll systems. Management had introduced mitigating controls which operated throughout 2011/12.

### Governance statement

46. In 2011/12 OSCR included a governance statement in its annual accounts for the first time. In accordance with Scottish Government guidance, this included description and assessment of the essential components of corporate governance and details of any significant risk-related matters arising during the period.

## Risk Management

47. The Risk Register is a key corporate document which forms an essential part of the overall risk management framework. OSCR currently records all risks on a single register under 5 key categories. The Risk Register is considered by the Senior Management Team (bi-monthly), the Audit Committee (quarterly) and by the Board on an annual basis.
48. Moving forward, OSCR are considering replacing the existing single register with a hierarchy of Risk Registers targeted at a range of specific audiences. For example, the Board would focus on strategic delivery and governance issues, rather than the management of risks relating to operational matters. The Senior Management Team would focus on risks relating to reputation, resource management and leadership and governance.
49. As part of our 2012-13 audit we will review progress with future developments in this area.

## Prevention and detection of fraud and irregularities

50. OSCR is responsible for establishing arrangements to prevent and detect fraud and other irregularity. We review and report on these arrangements.
51. OSCR has robust arrangements in place (based on Scottish Government guidance) to prevent and detect instances of fraud and corruption.
52. There were no instances of fraud or corruption reported by OSCR in 2011-12.

## Standards of conduct and arrangements for the prevention/detection of bribery and corruption

53. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. We have concluded that the arrangements in OSCR are satisfactory and we are not aware of any specific issues that we need to identify in this report.

# Appendix A: audit reports

## External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan	10 February 2012	21 February 2012
Report on financial statements to those charged with governance (ISA 260)	11 June 2012	11 June 2012
Audit opinion on the 2011/12 financial statements	11 June 2012	11 June 2012