

# Report to those charged with governance on the 2013/14 audit

<b>Committee :</b>	Office of the Scottish Charity Regulator - Audit Committee
<b>Date:</b>	13th June 2014
<b>Location:</b>	Quadrant House, 9 Riverside Drive, Dundee

## Background

1. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action.
2. This report sets out for the Audit Committee consideration the matters arising from the audit of the financial statements for 2013/14 that require to be reported under ISA 260. We are drawing to your attention those matters we think are worthy of note, so that you can consider them before the financial statements are approved and certified. It should be noted that the audit opinion reflects recent discussions with management and is subject to satisfactory conclusion of any outstanding matters.
3. We also present for your consideration our annual report on the 2013/14 audit which identifies significant findings from the financial statements audit. This report is attached at [Appendix C](#) and will be issued in final format after the financial statements have been certified.

## Status of the work

4. We received the unaudited financial statements on 12 May 2014, in accordance with the agreed timetable. The working papers were of a high standard and officers provided excellent support to the audit team which enabled us to complete our fieldwork by the planned target date of 21 May 2014.
5. Our work on the financial statements is now substantially complete. The issues arising from the financial statements audit were included in a matters arising schedule issued to the Head of Support Services on 21 May 2014. The more significant issues arising were discussed with the Head of Support Services at a meeting on 28 May 2014.

## Fraud

6. We have concluded that the Office of the Scottish Charity Regulator's arrangements for the prevention and detection of fraud were adequate during 2013/14. However, we seek confirmation from those charged with governance of any instances of fraud that have arisen that should be brought to our attention. A specific confirmation from management in relation to fraud has been included in the draft letter of representation.

## Audit opinion and representations

7. Subject to the satisfactory conclusion of any outstanding matters and receipt of a revised set of financial statements for final review, we anticipate being able to issue an unqualified auditor's report on 25 June 2014 (the proposed report is attached at Appendix A). There are no anticipated modifications to the audit report.
8. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature which we regard as errors less than £1,000. We have no unadjusted misstatements to bring to your attention.
9. A small number of presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with the Head of Support Services who agreed to amend the unaudited financial statements.
10. As part of the completion of our audit we seek written assurances from the Accountable Officer on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at [Appendix B](#). This should be signed and returned by the Accountable Officer with the signed financial statements prior to the independent auditor's opinion being certified.

## Significant findings

11. In our view, there are no issues which require to be brought to your attention regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties.

# APPENDIX A: Proposed Independent Auditor's Report

## **Independent auditor's report to the Office of the Scottish Charity Regulator, the Auditor General for Scotland and the Scottish Parliament**

I have audited the financial statements of the Office of the Scottish Charity Regulator for the year ended 31 March 2014 under the Public Finance and Accountability (Scotland) Act 2000. The financial statements comprise the Statement of Comprehensive Net Expenditure, the Statement of Financial Position, the Statement of Cash Flows, the Statement of Changes in Taxpayers' Equity, the Statement of Operating Costs by Departmental Strategic Objective and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the 2013/14 Government Financial Reporting Manual (the 2013/14 FReM).

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Auditor General for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### **Respective responsibilities of Accountable Officer and auditor**

As explained more fully in the Statement of the Accountable Officer's Responsibilities, the Accountable Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and is also responsible for ensuring the regularity of expenditure and income. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Auditor General for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors. I am also responsible for giving an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the body's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Accountable Officer; and the overall presentation of the financial

statements. It also involves obtaining evidence about the regularity of expenditure and income. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements, irregularities, or inconsistencies I consider the implications for my report.

### **Opinion on financial statements**

In my opinion the financial statements:

- 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 of the state of the body's affairs as at 31 March 2014 and of its net operating cost for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2013/14 FReM; and
- have been prepared in accordance with the requirements of the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

### **Opinion on regularity**

In my opinion in all material respects:

- the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers, the Budget (Scotland) Act covering the financial year and sections 4 to 7 of the Public Finance and Accountability (Scotland) Act 2000; and
- the sums paid out of the Scottish Consolidated Fund for the purpose of meeting the expenditure shown in the financial statements were applied in accordance with section 65 of the Scotland Act 1998.

### **Opinion on other prescribed matters**

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which I am required to report by exception**

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Governance Statement does not comply with guidance from the Scottish Ministers.

I have nothing to report in respect of these matters.

David McConnell, MA, CPFA

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Audit Scotland

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The Athenaeum Building

8 Nelson Mandela Place

GLASGOW

G2 1BT

25 June 2014

# Appendix B: ISA 580 - Letter of Representation

David McConnell

25 June 2014

Assistant Director

Audit Scotland

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8 Nelson Mandela Place

Glasgow

G2 1BT

Dear David

Office of the Scottish Charity Regulator

## **Annual Accounts 2013/14**

12. This representation letter is provided in connection with your audit of the financial statements of the Office of the Scottish Charity Regulator for the year ended 31 March 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the Office of the Scottish Charity Regulator, as at 31 March 2014 and its Statement of net comprehensive expenditure for the year then ended.

I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the Executive Management Team and the Board, the following representations given to you in connection with your audit of the Office of the Scottish Charity Regulator for the year ended 31 March 2014.

## **General**

13. I acknowledge my responsibility and that of the Office of the Scottish Charity Regulator for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by the Office of the Scottish Charity Regulator have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.

14. The information given in the Annual Report to the financial statements, including the Remuneration Report, presents a balanced picture of the Office of the Scottish Charity Regulator and is consistent with the financial statements.

15. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those identified in the auditor's report to those charged with governance (ISA260).

### **Regularity of Financial Transactions**

16. The financial transactions of the Office of the Scottish Charity Regulator are in accordance with the relevant legislation and regulations governing its activities and expenditure and income were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers.

### **Financial Reporting Framework**

17. The financial statements have been prepared in accordance with 2013/14 Government Financial Reporting Manual, and in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and the Public Finance and Accountability (Scotland) Act 2000 including all relevant presentation and disclosure requirements.
18. Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and state of affairs of the Office of the Scottish Charity Regulator for the year ended 31 March 2014.

### **Accounting Policies & Estimates**

19. All material accounting policies adopted are as shown in the Statement of Accounting Policies included in the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter, and takes account of the requirements set out in the 2013/14 Government Financial Reporting Manual.
20. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

### **Going Concern**

21. The Board has assessed the Office of the Scottish Charity Regulator's ability to carry on as a going concern, as identified in the Statement of Accounting Policies, and have disclosed, in the financial statements, any material uncertainties that have arisen as a result.

### **Related Party Transactions**

22. All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the requirements of IAS24, as interpreted by the 2013/14 Government Financial Reporting Manual.

### **Events Subsequent to the Date of the Statement of Financial Position**

23. There have been no material events since the date of the Statement of Financial Position which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.
24. Since the date of the Statement of Financial Position no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

### **Corporate Governance**

25. I acknowledge as Accountable Officer my responsibility for the corporate governance arrangements. I confirm that I have disclosed to the auditor all deficiencies in internal control of which I am aware.
26. The corporate governance arrangements have been reviewed and the disclosures I have made are in accordance with the 2013/14 Government Financial Reporting Manual. There have been no changes in the corporate governance arrangements or issues identified, since the 31 March 2014, which require disclosure.

### **Fraud**

27. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

### **Assets**

28. The assets shown in the Statement of Financial Position at 31 March 2014 were owned by the Office of the Scottish Charity Regulator, other than assets which have been purchased under operating leases. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

### **Liabilities**

29. All liabilities have been provided for in the books of account, including the liabilities for all purchases to which title has passed prior to 31 March 2014.

### **Carrying Value of Assets and Liabilities**

30. The assets and liabilities have been recognised, measured, presented and disclosed in accordance with 2013/14 Government Financial Reporting Manual. There are no plans or intentions that are likely to affect the carrying value of classification of the assets and liabilities within the financial statements.

Yours sincerely

Accountable Officer



# Appendix C:

# Office of the Scottish Charity Regulator

## Annual report on the 2013/14 audit



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

June 2014

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**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

## 2013/14

In 2013/14 we assessed the key strategic and financial risks being faced by the Office of the Scottish Charity Regulator. 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.

### Financial Statements

We have given an unqualified opinion on the financial statements of the Office of the Scottish Charity Regulator for 2013/14. 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

The Office of the Scottish Charity Regulator's 2013/14 budget was originally £3.050m however, this was revised to £3m following the spring budget review (£2.950m resource expenditure and £0.050m capital expenditure).

Cash funding of £3m was received from the Scottish Government of which Net operating costs were £2.873m and capital expenditure was £0.061m. This resulted in an overall underspend of £0.066m.

### Governance and Accountability

Overall the Office of the Scottish Charity Regulator's arrangements for the prevention and detection of fraud were satisfactory during 2013/14. From our review of the key controls within the main financial systems, we concluded that the Office of the Scottish Charity Regulator's systems of internal control are operating effectively and therefore we are able to place reliance on them.

### Outlook

The financial position and sustainability of the Office of the Scottish Charity Regulator appear stable on the basis of its financial outturn and projected three-year financial summary. The financial position going forward is however becoming more challenging than previous years with limited increases in funding coupled with increasing cost pressures. This represents a challenge for the Office of the Scottish Charity Regulator and expenditure during the current year will require to be closely monitored to identify and address any emerging budget pressures or projected overspends at an early stage. The significant financial challenges will make maintaining or improving on the performance targets set by the Scottish Government even more demanding.

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# Introduction

31. This report is the summary of our findings arising from the 2013/14 audit of the Office of the Scottish Charity Regulator. The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinions (i.e. on the financial statements) and conclusions on significant issues arising.
32. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). This sets out the wider dimensions of the public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management; however this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of the Office of the Scottish Charity Regulator and no responsibility to any third party is accepted.
33. This report is also addressed to the Auditor General for Scotland and will be published on our website after consideration by the Audit Committee and after the annual report and accounts have been laid before parliament.

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# Financial statements

## Conduct and scope of the audit

34. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan presented to the Audit Committee on 19 February 2014, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
35. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2013/14 agreed fee for the audit was disclosed in the Annual Audit Plan and as we did not require carrying out any additional work outwith our planned audit activity this fee remains unchanged.

## Audit opinion & accounting issues

36. The Office of the Scottish Charity Regulator is required to follow the 2013/14 Financial Reporting Manual and we can confirm that the financial statements have been properly prepared in accordance with these accounting requirements and the accounts direction from Scottish Ministers.
37. We received the unaudited financial statements on 12 May 2014 in accordance with the agreed timetable. The working papers were of a high standard and the staff provided good support to the audit team. We completed our fieldwork on 21 May 2014 and matters arising were discussed on a regular basis with the Office of the Scottish Charity Regulator's Head of Support Services. We recommended a number of changes to the presentation of the management commentary and remuneration report of the financial statements, and these have been processed by management. There are no unadjusted misstatements to report.
38. The final clearance meeting was held on 28 May 2014 with our ISA 260 report being presented to the Audit Committee on 13 June 2013. We have given an unqualified opinion that the financial statements of the Office of the Scottish Charity Regulator for 2013/14 give a true and fair view of the state of the body's affairs and of its net operating costs for the year. The financial statements were signed by the Chief Executive, as accountable officer, on 25 June 2014.
39. We also reviewed the Governance Statement and concluded that it complied with Scottish Government guidance.

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## Financial position

### 2013/14 Outturn

40. The main financial objective for the Office of the Scottish Charity Regulator is to ensure that the financial outturn for the year is within the resource budget allocated by Scottish Ministers.
41. The Office of the Scottish Charity Regulator received a total final resource budget of £3m for 2013/14 which was internally split between revenue (£2.950m) and capital (£0.050m) as detailed in Table 1 below. The internal capital budget was slightly overspent, however, overall the Office of the Scottish Charity Regulator operated within the total final resource budget agreed with the Scottish Government.

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**Table 1: Resource Budget**

	Initial Budget (£'000)	Final Budget (£'000)	Actual Outturn (£'000)	Under / (Over) spend (£000)
Resource DEL	3,000	2,950	2,873	0,077
Capital DEL	0,050	0,050	0,061	(0,011)
<b>Total</b>	<b>3,050</b>	<b>3,000</b>	<b>2,934</b>	<b>0,066</b>

*Source: Office of the Scottish Charity Regulator 2013/14 Annual Report and Accounts*

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42. The Scottish Government sets a resource budget for the year for the Office of the Scottish Charity Regulator 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. The Office of the Scottish Charity Regulator is expected to manage its budget in accordance with its framework agreement with the Scottish Government.
43. Spending on operating costs was within the final budget set, mainly as a result of in-year expenditure monitoring where budget adjustments, slippages and efficiencies have been used to balance within the overall allocation. We have concluded that the Office of the Scottish Charity Regulator budget setting and monitoring arrangements are satisfactory, and we noted that senior management and the Board received up to date monitoring reports timeously.
44. The target level of efficiencies to be achieved by the Office of the Scottish Charity Regulator in 2013/14 was £0.090m. 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. For the period 2013/14, the Office of the Scottish Charity Regulator have internally reported efficiency savings totalling £0.135m which can be regarded as a positive outcome for the year. Savings have mainly arisen from collaborative procurement of IT equipment and support, legal fees and OSCR on-line.

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## 2013/14 Financial position

45. The Statement of Financial Position shows the Office of the Scottish Charity Regulator had net assets of £0.124m at 31 March 2014, compared with net assets of £0.153m as at 31 March 2013. The movement is largely due to increase in accruals and decrease in trade payables during the year.

## Outlook

### 2013/14 budget

46. The Office of the Scottish Charity Regulator has received budget approval from the Scottish Ministers of £3m for 2014/15. As a public body the Office of the Scottish Charity Regulator is required to maximise value for money and to continually improve the efficiency with which it undertakes its statutory functions. This is consistent with the funding allocated in 2013/14.
47. As part of the £3m budget for 2014/15, the Office of the Scottish Charity Regulator has central costs for salary costs, shared service costs and information and knowledge management costs. There are a number of challenging management decisions to be made relating to the remaining budget of approximately £0.350m that will be used in areas such as Legal Fees, the risk led regulation project and office costs.

## Corporate governance and systems of internal control

### Overall governance arrangements

48. 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.
49. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements and overall we found the Office of the Scottish Charity Regulator had sound governance arrangements in place, with the Board and Audit Committee overseeing key aspects of governance.

### Accounting and internal control systems

50. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
51. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.



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52. Internal audit is an important element of the Office of the Scottish Charity Regulator's governance structure. As part of our risk assessment and planning process we assessed the Scottish Government Internal Audit Division, the Office of the Scottish Charity Regulator's internal auditors, and concluded that they operate in accordance with the Government Internal Audit Manual.
53. In their annual report for 2013/14, 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 the Office of the Scottish Charity Regulator's:
- arrangements in place to manage the charity regulation project to improve the scope of the existing risk based approach
  - arrangements for monitoring non submitting charities
  - user perspective regarding the implementation, operation and future development of the OSCR online system
  - procedures, monitoring and reporting arrangements over the Freedom of Information process.

We were able to place reliance on the work of Scottish Government Internal Audit Division.

54. 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 the Office of the Scottish Charity Regulator. This approach ensures we are delivering an efficient co-ordinated audit that avoids unnecessary duplication and expense.
55. 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.

### **Prevention and detection of fraud and irregularity**

56. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In our opinion the Office of the Scottish Charity Regulator's overall arrangements for the prevention of fraud are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.

### **Standards of conduct and arrangements for the prevention and detection of corruption**

57. 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. No issues have been identified by us for inclusion in this report.

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## Acknowledgements

We would like to express our thanks to the staff of the Office of the Scottish Charity Regulator for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.