



**The Queen's and
Lord Treasurer's
Remembrancer**

Annual audit report 2014/15

June 2015

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This report has been prepared for the use of the QLTR and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the Audit and Risk Committee. The information in this report may be used by Audit Scotland in any reporting to the Scottish Parliament.

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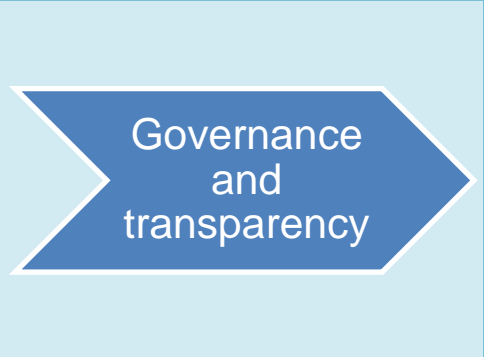
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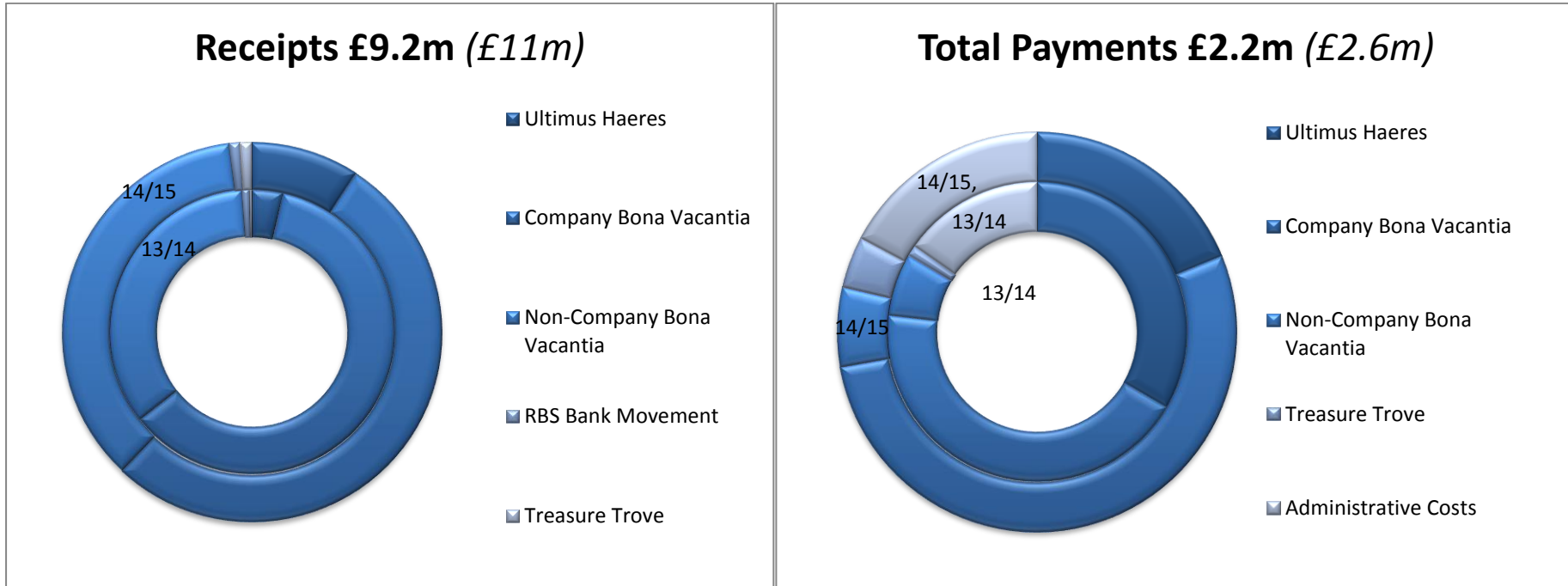
Key Messages

 <p>Audit of financial statements</p>	<ul style="list-style-type: none">• Unqualified independent auditor's report on the 2014/15 financial statements.
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none">• Net receipts of operations of £6.915 million with £7.681 million paid to the Scottish Consolidated Fund in 2014/15.• QLTR receipts and payments are difficult to predict and QLTR continues to monitor its financial position.
 <p>Governance and transparency</p>	<ul style="list-style-type: none">• The QLTR shares its governance arrangements with the COPFS, including the Audit and Risk Committee.• We found that the QLTR had sound governance arrangements.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of the Queen's and Lord Treasurer's Remembrance (QLTR).
2. The management of the QLTR is responsible for:
 - preparing financial statements which properly present in accordance with the relevant financial reporting framework
 - ensuring the regularity of transactions, by putting in place systems of internal control
 - maintaining proper accounting records
 - preparing and publishing with their financial statements and an annual governance statement.
3. Our responsibility, as the external auditor of the QLTR, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of 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; that have been prepared by management with the oversight of those charged with governance. This does not relieve management of their responsibility for the preparation of financial statements.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. The reports relevant to QLTR are summarised at [appendix II](#) and [appendix III](#).
6. [Appendix IV](#) is an action plan setting out our recommendations to address the high level risks we have identified from the audit. We recognise that not all risks can be eliminated or even minimised. What is important is that the QLTR understands its risks and has arrangements in place to manage these risks. The Audit and Risk Committee should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

2014/15 financial statements



The financial statements show that receipts of £9.2 million are £1.8 million (17%) less than last year. During 2013/14, the QLTR had a significant increase in their receipts as a result of:

- historic bank account credit balances, following the earlier dissolution of companies, being passed to the QLTR in 2013/14
- the Law Society of Scotland requiring firms of solicitors to address historic bank balances held in their client accounts.

Payments have reduced by £0.4 million (17%), the level of payments are dependent on the number of estates completion and dissolution of companies that take place during the year.

Audit of the 2014/15 financial statements

Audit opinions

Financial Statements

- The financial statements of the QLTR for 2014/15 properly present the receipts and payments and balances held.
- We confirm that the financial statements have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers.

Regularity

- In all material respects, the receipts and payments in the financial statements were incurred or applied in accordance with applicable enactments and guidance.

Other prescribed matters

- The information in the Management Commentary is consistent with the financial statements.

Audit of the 2014/15 financial statements

Submission of financial statements for audit

9. We received the unaudited financial statements on 15 May 2015, in accordance with the agreed timetable. The working papers were of a good standard and the staff provided good support to the audit team and we completed our on-site fieldwork on 11 June 2015.

Overview of the scope of the audit of the financial statements

10. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit and Audit Committee on 26 February 2015.
11. 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 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
12. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance.

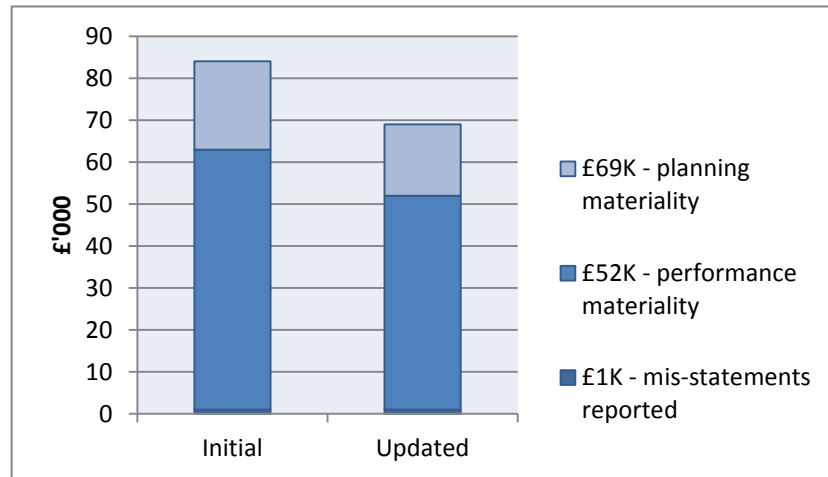
13. [Appendix I](#) sets out the significant audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.
14. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

15. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other qualitative reasons (for example an item contrary to law).
16. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
17. We summarised our approach to materiality in our Annual Audit Plan. Based on the financial statements, we reviewed our materiality levels and concluded that our original calculation remained appropriate (1% of net receipts).

Audit of the 2014/15 financial statements

Performance materiality of £52,000 is determined to ensure that uncorrected and undetected audit differences do not exceed our planning materiality level. We report all misstatements greater than £1,000. Our initial materiality levels were based on the 2013/14 audited accounts, and updated materiality levels on the 2014/15 unaudited accounts.



Evaluation of misstatements

18. No misstatements were identified during the audit.

Significant findings from the audit

19. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit:

- the auditor's views about significant qualitative aspects of

the entity's accounting practices, including accounting policies, accounting estimates and disclosures

- significant difficulties encountered during the audit
- significant matters arising from the audit that were discussed, or subject to correspondence with management
- written representations requested by the auditor
- other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

20. A small number of presentational adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements.

21. During the course of the audit we identified the following significant issue that, in our view, require to be communicated to you in accordance with ISA 260.

Significant findings from the audit in accordance with ISA260

22. Monies Previously Surrendered to the Scottish Consolidated Fund: The QLTR has not formally established whether they can recoup monies previously surrendered to the Scottish Consolidated Fund. There is a risk that the reserve held by the QLTR in their Accrued Income Account is insufficient to cover any significant unexpected claims. The QLTR should formalise the position with the QLTR regarding previously surrendered monies.

Resolution: The COPFS Head of Management Accounting and Planning has arranged a meeting with the Scottish Government to formally establish arrangements.

Refer Action Plan Point No.1

Appendix I – Significant audit risks

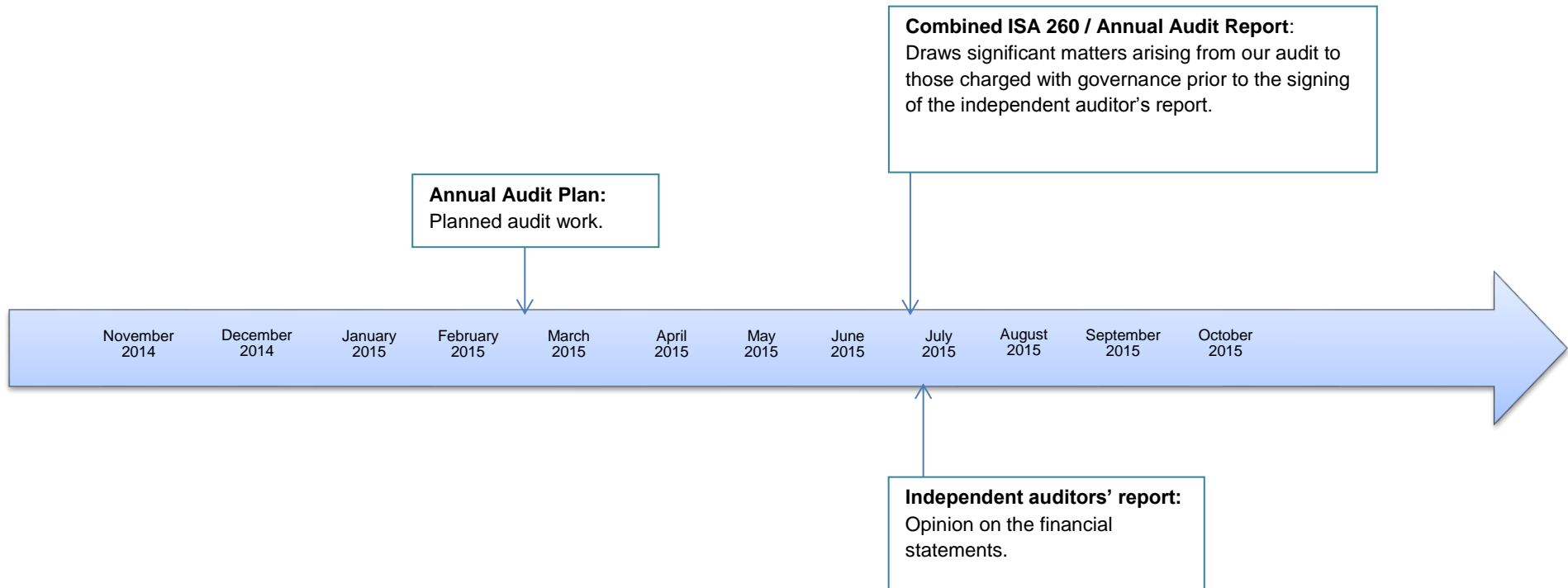
The table below sets out the financial statement audit risks, how we addressed each risk and our judgement in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement		
<p>Management Override of Controls (Receipts and Payments Account)</p> <p>Auditing Standards (ISA 240 The auditor’s responsibility to consider fraud in an audit of financial statements) requires auditors to consider, on all audits, management’s ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<p>Detailed testing of journal entries</p> <p>Review of accounting estimates</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>Our substantive testing during the financial statements audit covered assurance procedures.</p> <p>From our audit testing, we did not identify any management override of controls.</p>

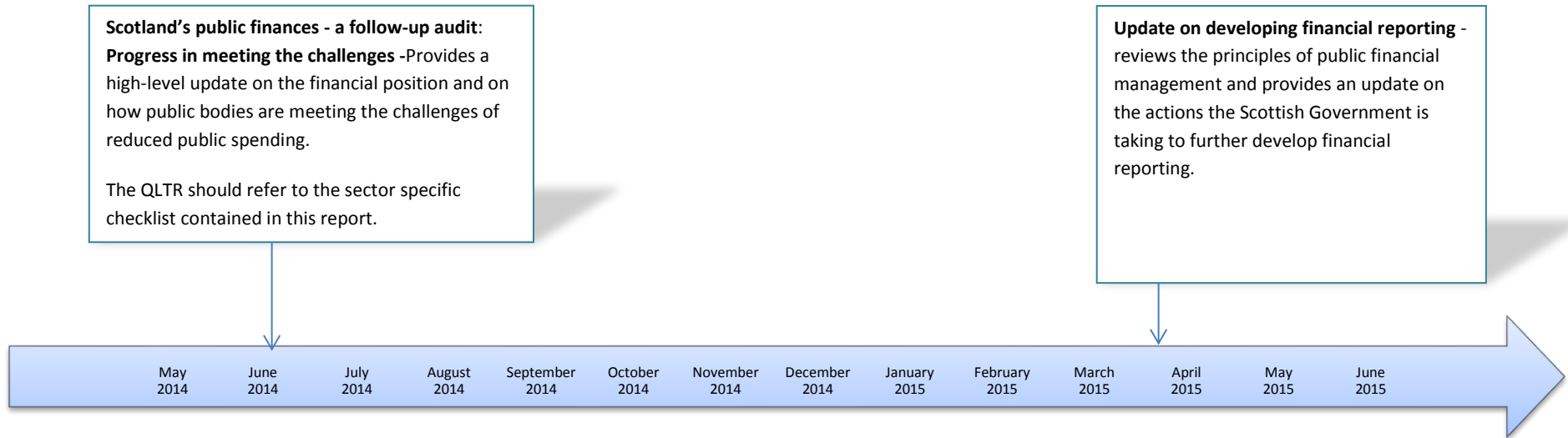
Appendix I – Significant audit risks

Audit Risk	Assurance procedure	Results and conclusions
<p>Adequacy of Reserves</p> <p>(Summary Note of Balances Held, Statement of Accounting Policies 1.5)</p> <p>The Accrued Income cash reserve is used to fund any liabilities arising from a property which is either unwanted or has been refused by the beneficiary and has vested in the Crown as Bona Vacantia. There is a risk that the liabilities relating to the property outweighs receipts generated. The QLTR monitors all new and ongoing cases to seek to achieve either a disposal or a disclaimer within the three year statutory period.</p>	<p>Review the QLTR’s financial management and financial position providing comment in our Annual Audit Report.</p>	<p>Net receipts of £6.915 million reported in the financial statements with £7.681 million surrendered to the Scottish Consolidated Fund. The Accrued Income Account remains sufficient at £3.796 million. We audited net receipts and payments to the Scottish Consolidated Fund during our financial statements audit. There were no outstanding issues.</p>
<p>Income</p> <p>(Receipts and Payments Account, Statement of Accounting Policies 1.5)</p> <p>Auditing standards (ISA 240 The auditor’s responsibility to consider fraud in an audit of financial statements) requires auditors to presume a risk of fraud where income streams are significant. In 2013/14 the QLTR received income from Bona Vacantia and Ultimus Haeres totalling £11 million. The extent of income means there is an inherent risk that income could be materially misstated.</p>	<p>Test internal controls in place to prevent fraud and where necessary carry out detailed testing of revenue transaction.</p>	<p>Substantive testing of all material receipt streams was undertaken. From our audit testing, we conclude that receipts are not materially misstated.</p>

Appendix II – Summary of local audit reports 2014/15



Appendix III – Summary of national reports 2014/15



Appendix IV – Action plan

No. Para/page	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
Financial audit Issues				
1 22/8	<p>Scottish Consolidated Fund</p> <p>The QLTR has not established whether they can recoup monies previously surrendered to the Scottish Consolidated Fund.</p> <p>Risk</p> <p>There is a risk that an unexpected large payment exceeds the reserve contained in the Accrued Income Account. The QLTR may not have sufficient monies available.</p> <p>Recommendation</p> <p>The QLTR should clarify the position with the Scottish Consolidated Fund regarding previously surrendered monies.</p>	COPFS's Head of Management Accounting and Planning to meet with Scottish Government.	COPFS Head of Management Accounting and Planning	30 September 2015