



**Office of the
Scottish Charity
Regulator**

Annual Audit Report
2014/15

June 2015

Contents

Key messages	3
Introduction	5
2014/15 financial statements.....	6
Audit of the 2014/15 financial statements.....	7
Financial management and sustainability.....	11
Governance and transparency	14
Appendix I – Significant audit risks.....	17
Appendix II – Summary of local audit reports 2014/15	20
Appendix III – Summary of national reports 2014/15.....	21
Appendix IV – Action plan	22

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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.• Working papers were of a high standard and officers provided excellent support which enabled the audit team to complete on-site fieldwork by the planned target date.• Only minor presentational and disclosure adjustments required to the financial statements presented for audit.
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none">• The Office of the Scottish Charity Regulator (OSCR) operated within its resource budget for 2014/15.• The financial position remains stable with an excess of assets over liabilities. A balanced budget of income and expenditure is projected for a 3 year period to 2017 based on continuing Scottish Government funding.• OSCR faces a challenge to constrain operating costs within its budget in the medium to long term.

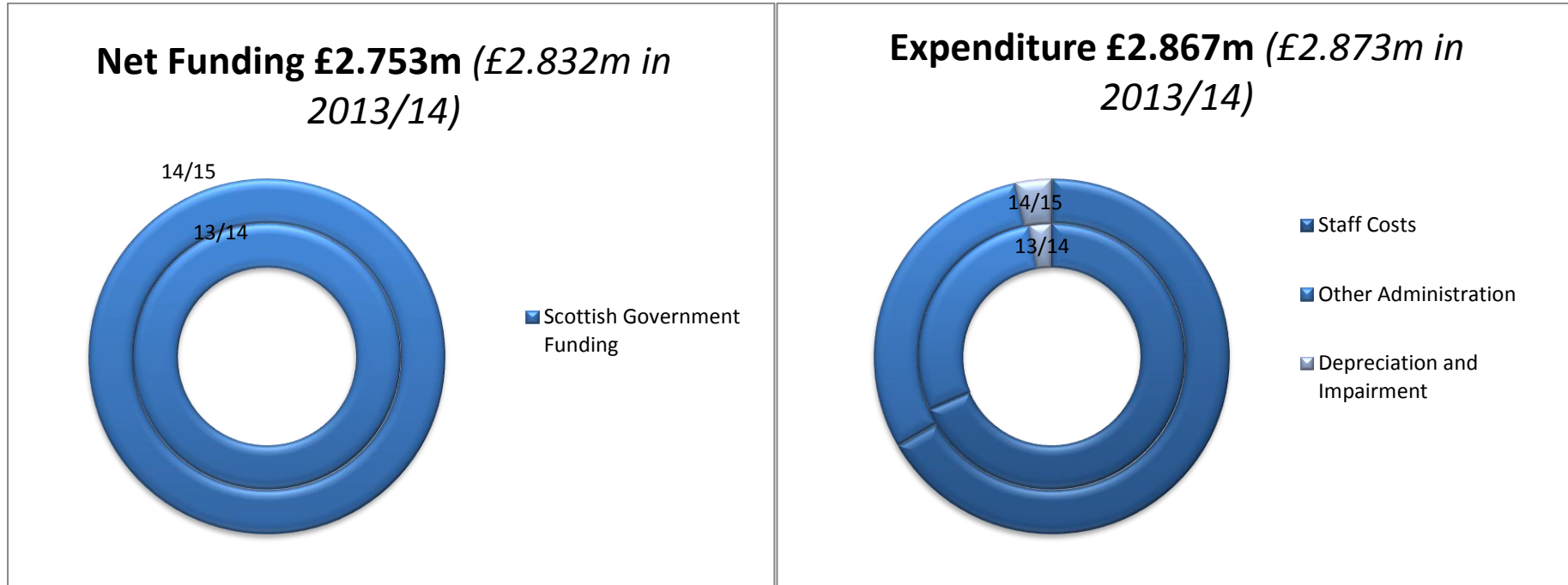
Key Messages

 <p>Governance and transparency</p>	<ul style="list-style-type: none">• Overall we found that OSCR had sound governance arrangements.• Systems of internal control operated effectively during 2014/15.• The register of interests extends to all OSCR board members and is renewed annually.
 <p>Outlook</p>	<ul style="list-style-type: none">• During 2014/15 a high sickness absence rate of 9.06 days average per Full Time Equivalent (FTE) staff member was reported to the Board. This will need to be actively managed going forward.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of OSCR.
2. The management of OSCR is responsible for:
 - preparing financial statements which give a true and fair view, 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 an annual governance statement and a remuneration report
3. Our responsibility, as the external auditor of OSCR, 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. These reports are summarised at **appendices II and III**, and include recommendations for improvements where appropriate.
6. **Appendix IV** is an action plan setting out our recommendations to address the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that OSCR understands its risks and has arrangements in place to manage these risks. The 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 Scottish Government net funding for 2014/15 was £2.8 million which is the same as 2013/14. Net expenditure in 2014/15 was £2.9 million which was also the same as 2013/14. OSCR used £0.1 million of General Fund Reserves to account for the difference between net funding and net expenditure in 2014/15.

Audit of the 2014/15 financial statements

Audit opinions

Financial Statements

- The financial statements of OSCR for 2014/15 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.
- We confirm that the financial statements have been properly prepared in accordance with the 2014/15 FReM and the Public Finance and Accountability (Scotland) Act 2000.

Regularity

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

Other prescribed matters

- The remuneration report to be audited has been properly prepared in accordance with the requirements of requirements of the Public Finance and Accountability (Scotland) Act 2000.
- The information in the management commentary is consistent with the financial statements.

Submission of financial statements for audit

9. We received the unaudited financial statements on 11 May 2015 in accordance with the agreed timetable. The working papers were of a high standard and the staff provided good support to the audit team and we completed our fieldwork on 22 May 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 18 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.

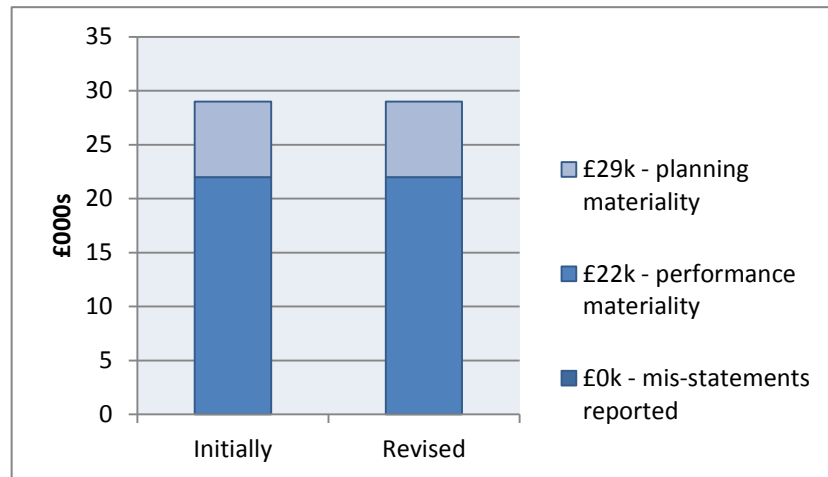
13. **Appendix I** sets out the significant audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.
14. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable 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.

Audit of the 2014/15 financial statements

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 of £29,000 remained appropriate (1% of gross expenditure).
18. Performance materiality of £22,000 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.



Evaluation of misstatements

19. There were no misstatements identified during the audit, which exceeded our misstatement threshold. Therefore, no amendments have been made to the financial statements which impact upon either the net expenditure for the year or the net assets position at 31 March 2015.

Clearance process

20. The issues arising from the financial statements audit were discussed with the Head of Support Services and finance staff at a meeting on 29 May 2015.

Significant findings from the audit

21. 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.
22. A number of presentational adjustments were identified during the course of our audit. These were discussed with the Head of Support Services who agreed to amend the unaudited financial statements.

Significant findings from the audit in accordance with ISA260

23. There are no issues or audit judgements that, in our view, require to be communicated to you in accordance with ISA260.

Future accounting and auditing developments

Revisions to the Financial Reporting Manual (FReM)

24. The financial statements are prepared in accordance with the Government financial reporting manual (FReM). Two significant revisions will apply from 2015/16:

- Simplification and Streamlining Project – changes to the form and content of the annual report and accounts.
- Adoption of IFRS13 *Fair value measurement* for the first time – this also includes IAS 16 and IAS 38 adaptations.

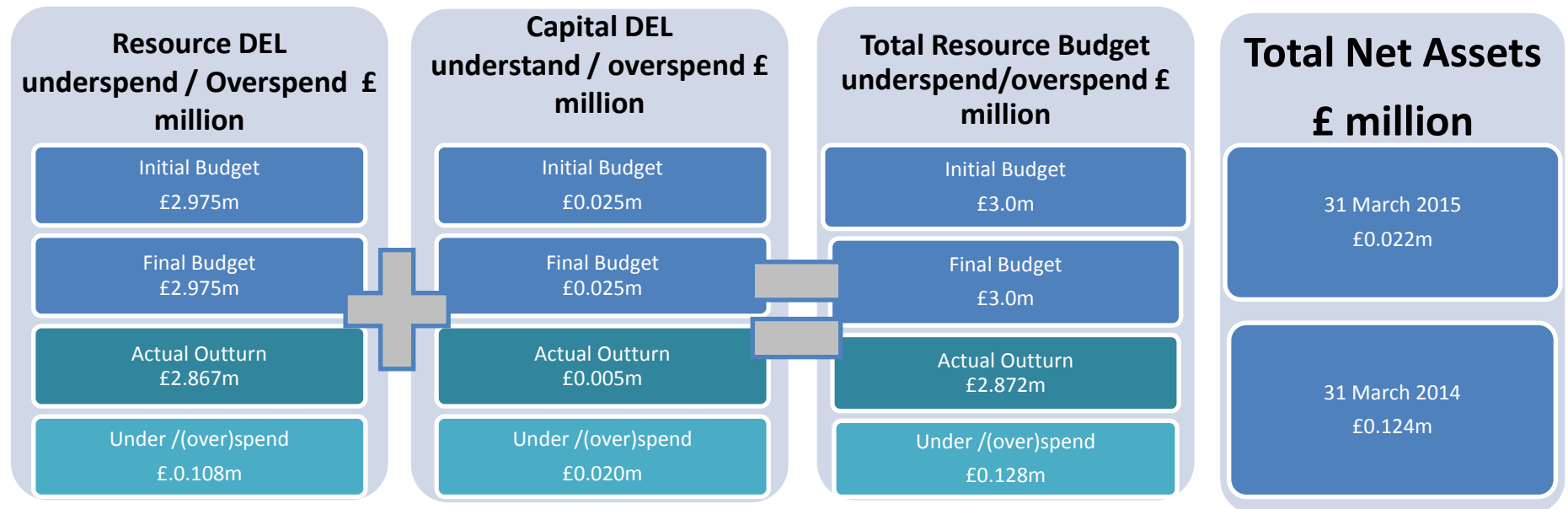
25. **Restructuring of the annual report and accounts:** the 2015/16 FReM has been extensively re-written to require the annual report and accounts to include:

- A performance report which will give a fair, balanced and understandable analysis of performance and will include an overview section and a performance analysis section.
- An accountability report incorporating the following three main sections:
 - corporate governance report consisting of a directors'

report, a statement of the Accountable Officer's responsibilities and a governance statement

- remuneration and staff report which will cover a number of prescribed disclosures including remuneration policy, payments to directors, staff numbers and sickness absence rates
- parliamentary and accountability report which will include information on the regularity of expenditure and the independent auditor's report.

Financial management and sustainability



2014/15 financial position

26. The main financial objective for OSCR is to ensure that the financial outturn for the year is within the resource budget allocated by Scottish Ministers.
27. 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.
28. OSCR received a total final resource budget of £3 million for 2014/15 which was internally split between revenue (£2.975 million) and capital (£0.025 million) as detailed above.
29. 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 OSCR budget setting and monitoring arrangements are satisfactory, and we noted that senior management and the Board received up to date monitoring reports timeously.
30. The target level of efficiencies to be achieved by OSCR in 2014/15 was £0.090 million. 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 2014/15, OSCR has internally reported efficiency savings of almost £0.123 million which can be regarded as a positive outcome for the year. Savings have mainly arisen from collaborative procurement and OSCR on-line.

31. The financial position of OSCR remains stable with the body operating within its available funding (on an accounting and resource basis).

Financial management

32. As auditors we need to consider whether bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
 - the officer responsible for finance (Head of Support Services) has sufficient status to be able to deliver good financial management
 - standing financial instructions and standing orders are comprehensive, current and promoted within the body
 - reports monitoring performance against budgets are accurate and provided regularly to budget holders
 - monitoring reports do not just contain financial data but are linked to information about performance
 - members provide a good level of challenge and question budget holders on significant variances.

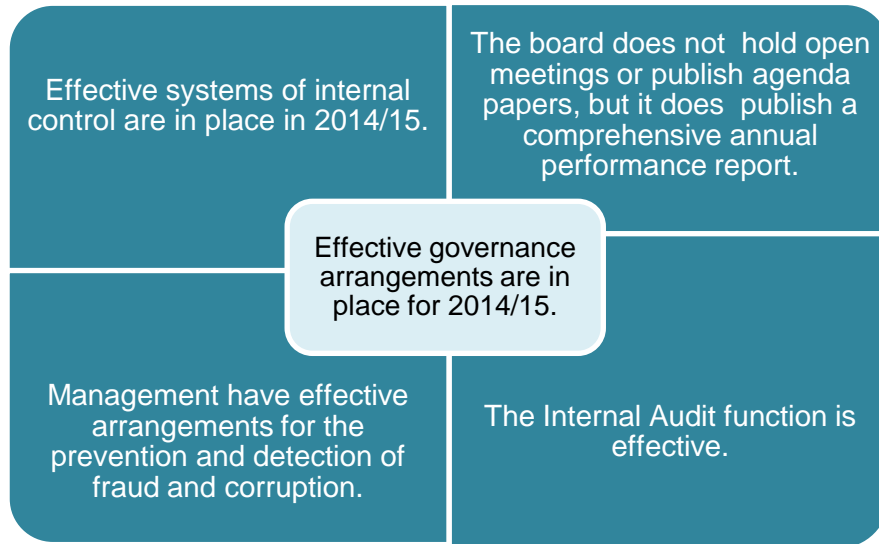
Financial management and sustainability

33. Based on our accumulated knowledge, our review of board papers and through our attendance at audit committee meetings, we conclude that OSCR has strong financial management arrangements in place.

2015/16 and beyond

34. OSCR's Scottish Government funding allocation for 2015/16 of £3 million is consistent with the funding allocated in 2014/15. A balanced budget of income and expenditure is projected for a 3 year period to 2017 based on continuing Scottish Government funding.

Governance and transparency



Corporate governance

35. The Board and Chief Executive (as Accountable Officer) is responsible for establishing arrangements for ensuring the proper conduct of the affairs of OSCR for monitoring the adequacy of these arrangements.
36. The members of the Board are appointed by the Scottish Ministers. The Board is supported in its role by the Audit Committee

37. The members of the Board and Audit Committee meet on a quarterly basis throughout the year to consider relevant matters. We concluded that OSCR has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

Transparency

38. The financial statements include a table showing OSCR's outturn against budget and a reconciliation of net resource outturn to net cash requirement in 2014/15. The Strategic Report also includes an overview of the financial performance for the year.
39. Together with the annual accounts, OSCR also publishes a comprehensive annual report which includes performance against its key indicators. We consider this provides a fair and balanced view of activities for the year.
40. Members of the public cannot attend meetings of the board and committees, but have access to board and committee papers on the internet as well as registers of interest.

Accounting and internal control systems

41. 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

Governance and transparency

their assessment of risk and the activities of internal audit.

42. 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.
43. Internal audit is an important element of OSCR's governance structure. 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.
44. 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.

Internal audit

45. Internal audit provides the audit committee and accountable officer with independent assurance on the overall risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.

46. Our review of internal audit concluded that the internal audit service operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. Therefore, we were able to place reliance on the following reviews during 2014/15: business continuity / planning arrangements and expenditure and income transactions.

Capacity to deliver

47. During 2014/15, OSCR reported an increased sickness absence rate of 9.06 days average per FTE staff member compared to 2.46 days in 2013/14.
48. While this increase is partly attributable to staff who are absent on long term sick leave, the Board should ensure that adequate arrangements are in place to manage sickness absence and to address any work pressures, or other factors, that may be contributing to the increase in absence levels.

Action Plan No. 1

Arrangements for the prevention and detection of fraud

49. We assessed the arrangements for the prevention and detection of fraud during the planning phase of our audit.
50. We conclude that there are effective arrangements for the prevention and detection of fraud, although it should be noted

Governance and transparency

that no system can eliminate the risk of fraud entirely.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

51. OSCR has in place a range of activities designed to maintain standards of conduct including Codes of Conduct for officers and members.
52. An area of good practice undertaken by OSCR relates to board members completing register of interests forms. This process would highlight where there may be a potential conflict of interest and is updated annually.
53. Based on our review of the evidence we concluded that there are appropriate arrangements in place for the prevention and detection of corruption and we are not aware of any specific issues that we need to record in this report.

Acknowledgements

54. We would like to express our thanks to the staff and members of OSCR 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.

Appendix I – Significant audit risks

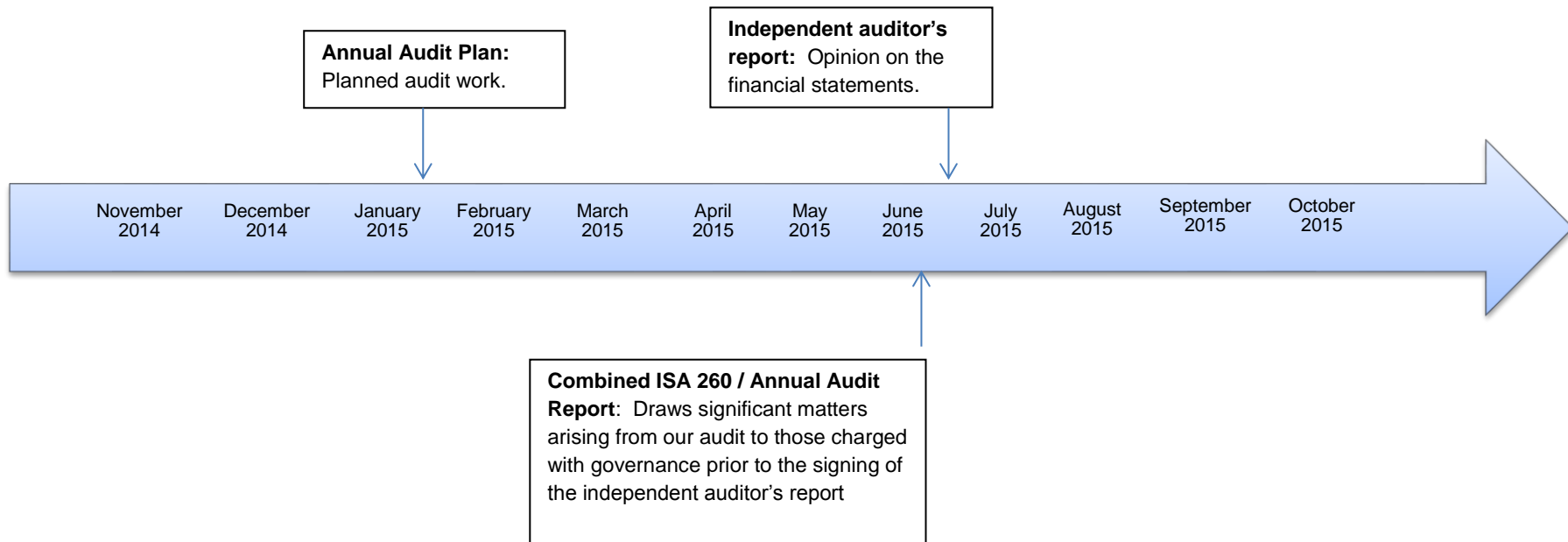
The table below sets out the financial statement audit risks, how we addressed each risk and our judgement in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement		
<p>Management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates for bias. • Evaluating significant transactions that are outside the normal course of business. • Focused testing of accruals and prepayments. 	<p>Our testing did not identify any instances of management override of controls during 2014/15.</p> <p>Satisfactory</p>

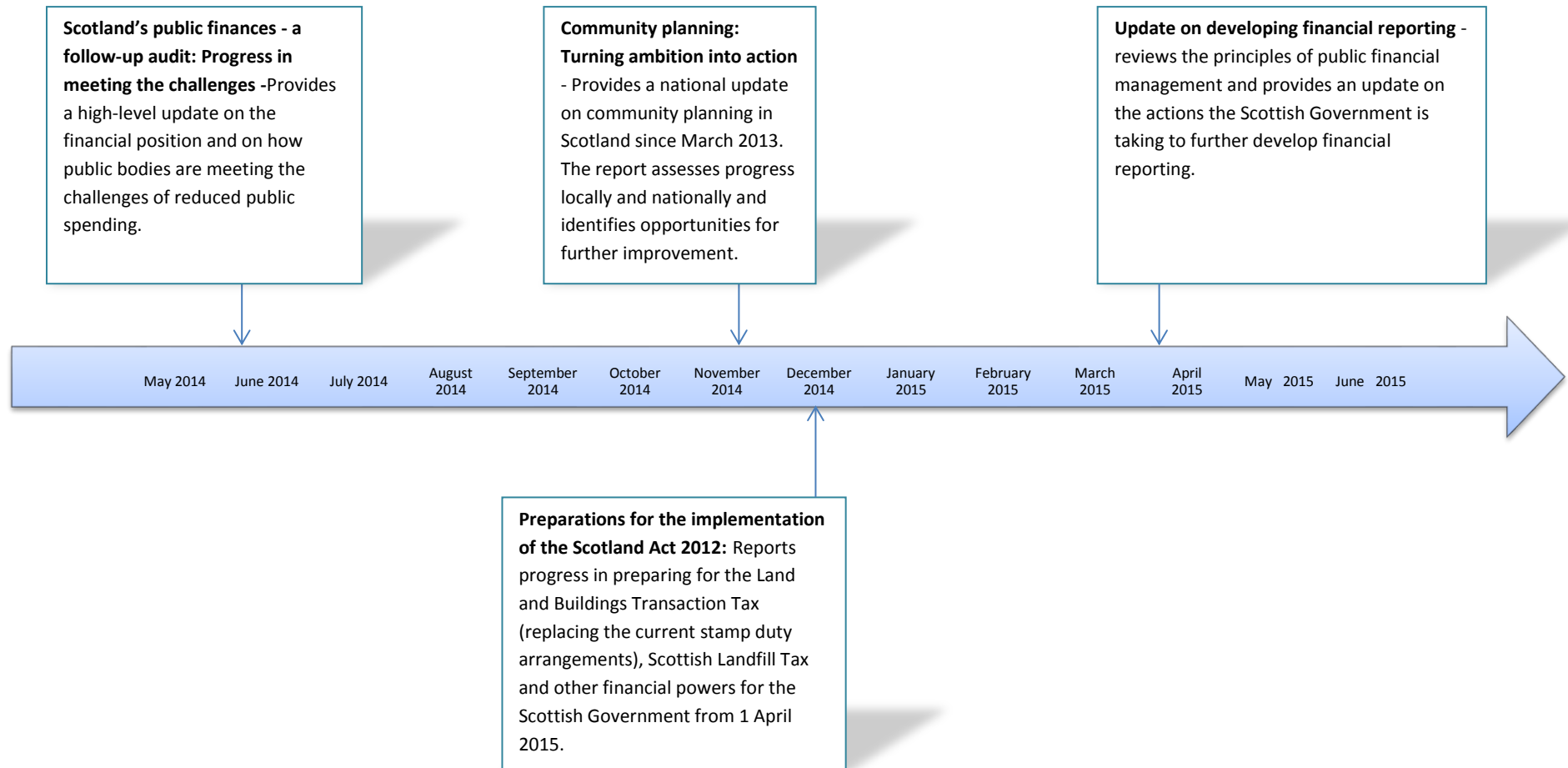
Audit Risk	Assurance procedure	Results and conclusions
<p>Change to SPFM</p> <p>The section of the SPFM on 'severance, early retirement and redundancy terms' now requires central government bodies to consult with the Scottish Government before offering or entering into any settlement agreement.</p> <p><i>Failure to obtain the required approval for any such payments may impact on our regularity audit opinion.</i></p>	<ul style="list-style-type: none"> • Confirm that the new SPFM requirements are consistent with those set out in the framework document with the Scottish Government. • Ensure that no payments of this nature have been made to date during 2014/15. 	<p>From discussion with management and our review of the unaudited financial statements, we identified no payments of this nature.</p> <p>Satisfactory</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Pension Benefit Information</p> <p>OSCR should liaise with the DWP regarding timescales for receiving pension benefit information for 2014/15.</p> <p><i>If the pension benefit information is not made available in a timely manner, this may result in a delay in completing the remuneration report and signing off OSCR's annual report and accounts.</i></p>	<ul style="list-style-type: none"> Liaise with the Scottish Government and DWP. 	<p>OSCR received the pension benefit information on 23 June 2015 and this has been disclosed correctly in the 2014/15 Annual Report and Accounts.</p> <p>Satisfactory</p>

Appendix II – Summary of local audit reports 2014/15



Appendix III – Summary of national reports 2014/15



Appendix IV – Action plan

Para/page	Issue/risk/recommendation	Management action/response	Responsible officer	Target date
Wider audit issue				
48/15	<p>Issue: The sickness absence rate has increased significantly since 2013/14 to 9.06 days average per FTE staff member.</p> <p>Risk: There is a risk that the levels of sickness absence will impact upon the ability of the organisation to function effectively.</p> <p>Recommendation: Management should ensure that adequate arrangements are in place to manage sickness absence and to identify any work pressures, or other factors, that may be contributing to the increase in absence levels.</p>	<p>New internal arrangements have been put in place to flag sickness absence rates more quickly. We currently receive absence information quarterly in arrears from SG. As a result of the relatively small number of staff at OSCR, all absences, and particularly long term ones (over 20 days) have a significant impact on overall annual absence figures. The Senior Management Team (SMT) is committed to ensuring that absence rates reduce, and all staff hold monthly conversations with their manager, at which workload and wellbeing are discussed. Following a period of absence staff also meet with their manager for a return to work discussion, which it is hoped should highlight any work related issues which have contributed to the non-attendance.</p>	Chief Executive and SMT	Ongoing