



Grant Thornton

Office of the Scottish Charity Regulator (OSCR)

External Audit Annual Report to the Interim Accountable Officer and the Auditor General for Scotland for the financial year ended 31 March 2019

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Our audit at a glance



We have fulfilled our responsibilities per International Standards of Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice throughout our work and this final report to the Interim Accountable Officer and the Auditor General for Scotland concludes our work.



Materiality was set at 2% of gross expenditure within our plan, and remained unchanged at £59,000. We did not identify any adjustments to the draft financial statements based on our work and minor disclosure amendments were discussed and agreed.



Significant audit risks were: management override of controls; and the risk of fraud in expenditure recognition. We did not identify any further risks of material misstatement during our audit.

An audit underpinned by quality



We have built on our relationship with OSCR management during the year and this has ensured an efficient audit process. We have issued an unmodified audit opinion for the financial year 2018/19.



Our work was undertaken in accordance with our agreed timetable. The draft financial statements produced by management were of a high standard with complete information and good supporting working papers. We thank management for their support and assistance during our work



A wider scope audit for OSCR, as set out in our plan, was considered not appropriate. However we have considered the financial planning arrangements including financial sustainability, recognising that year on year your funding from Scottish Government has stayed relatively static, with a slight uplift from 2019/20. In addition, we considered your governance arrangements as related to the governance statement.

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Adding value through our external audit work

First and foremost our objective is to ensure we deliver a quality external audit which fully complies with International Standards of Auditing (ISAs) UK and the Audit Scotland Code of Practice (2016). By ensuring our audit is efficient and effective, gives you assurance over our opinion.

Through this Annual Report we seek to provide insight and commentary over certain aspects of OSCR's arrangements, sharing relevant practices with the Audit Committee and Management.

We have continued to build on our working relationship with management and our understanding of OSCR as an organisation. During the year we have shared relevant publications with management, in particular from Audit Scotland, and also supported with any technical queries. We flexed our year-end financial statements timetable this year to ensure that OSCR would have complete information available from Scottish Government to include the payroll accruals.

Introduction

This report is a summary of our findings from our external audit work for the financial year ended 31 March 2019.

Our work has been undertaken in accordance with International Standards of Auditing (ISAs) (UK) and the Audit Scotland Code of Audit Practice 2016.

Our report is addressed to Maureen Mallon as OSCR Interim Accountable Officer, in respect of her role as set out and agreed with Scottish Ministers. In addition, in accordance with our reporting responsibilities the report is jointly addressed to the Auditor General for Scotland.

Once finalised this report will be made publically available on the Audit Scotland website (www.audit-scotland.gov.uk)

Our report was presented as a draft to the OSCR Audit Committee on 4 June 2019. An updated version of this report was presented to the Board alongside the annual report and accounts on the 13th of June. Following the Board meeting the Interim Accountable Officer signed the annual report and accounts on the 26th of June.

We would like to thank OSCR management and the finance team for an effective year-end audit process and all their support and assistance in the audit process.

Structure of this report

As set out in our Audit Plan (February 2019) we consider in accordance with the Audit Scotland Code of Practice that OSCR is a smaller body. Therefore full wider scope is not appropriate.

Our report concludes on our financial statements audit and certain aspects of OSCR's arrangements as follows:

Financial statements – Section 2

Performance and Strategic report – Section 2

OSCRs wider arrangements - Section 3



Our Opinion

For the financial year ended 31 March 2019 we have issued an **unmodified audit opinion**

- True and fair view of the financial statements
- Regularity – expenditure has been incurred in accordance with the purpose of OSCR
- Other prescribed matters (which include the audited information in the remuneration report)

The audit process

We received a good complete set of financial statements on 14 May 2019 including the performance report, strategic report and governance statement.

This was in line with the timetable we agreed. The draft financial statements were supported by good working papers and the audit was efficient.

We identified no changes to the financial statement balances and have no unadjusted differences to report to the Audit Committee and the Interim Accountable Officer. We identified minor disclosure enhancements and these have been reflected in the financial statements.



Our financial statements audit



Materiality is set at £59,000, representing 2% of gross expenditure based on the 2017/18 audited financial statements. We did not consider it necessary to update our materiality figure to reflect the draft 2018/19 financial statements as our planned figure remained within our acceptable range of between 1-2% of gross expenditure.



The draft financial statements were of a good standard and in line with the FReM. The financial statements were supported through detailed working papers.



We have issued a true and fair audit opinion on the financial statements, including the wider information contained in the financial statements, and regularity opinion. The audited parts of the Directors Remuneration Report are free from error.



Testing provided assurance on all identified areas of significant audit risks and there were no material audit differences arising during the course of our audit

The financial statements audit



Our audit work was completed in accordance with International Standards in Auditing (UK) (ISAs) and the Audit Scotland Code of Audit Practice (May 2016). Based on our audit procedures performed we have issued an unmodified audit opinion on the financial statements including:

- they give a true and fair view
- have been properly prepared in accordance with relevant legislation and standards
- the wider information contained in the financial statements e.g. Performance and Strategic report
- regularity of expenditure
- audited parts of the remuneration and staff report have been prepared in accordance with the guidance

Audit approach and materiality

Our audit approach was set out in our annual audit plan presented to the Audit Committee in February 2019. As set out in our plan, our materiality calculations were based on the audited 2017/18 financial statements. Overall materiality has been set at £59,000 (2% of gross expenditure) and performance materiality is set at £44,250. (75% of materiality). We report to management any audit difference identified over £2,950 (Trivial as 5% of materiality).

We did not identify any additional significant audit risks from those identified in our audit plan. Our work completed in relation to the audit risks identified (management override of controls and risk of fraud in expenditure) is set out on page 7.

Internal control environment

During the year we sought to understand OSCR's overall control environment (design) as related to the financial statements. In particular we have:

- Considered procedures and controls around related parties, journal entries and other key entity level controls. In particular placing reliance on the work of Audit Scotland in their role of Scottish Government external auditors Performed walkthrough procedures on key financial controls in particular journals, payroll and ledger controls

Our work over controls is limited to our ISA requirements in understanding an entities control environment. Our audit is not controls based and we do not seek reliance over controls. Our audit is fully substantive based in nature.

We identified no material weaknesses or areas of concern from this work which would have caused us to alter the planned approach, set out in our plan.

Internal Audit

As set out in our external audit plan we have not placed formal reliance on the work of the Scottish Government Internal Audit Directorate, OSCR's internal audit provider. We reviewed the internal audit plan and individual report issued to date, to consider if any impact on our audit approach, with none being noted and all reports receiving substantive assurance.

The opinion of Internal Audit for the year was substantial assurance, which is consistent with prior year.

The findings of internal audit do not disagree with our knowledge and understanding of OSCR as an organisation.

Key audit issues

Responding to significant risks

Within our annual external audit plan we identified significant audit risks and our planned approach. We have set out below a summary of the work undertaken over these risks and our audit conclusions

	Identified audit risk at planning	Work completed	Our conclusion
Operating expenditure is not treated correctly	<p>Operating expenditure is understated or not treated in the correct period (risk of fraud in expenditure). As set out in FRC Practice note 10 (revised) which applies to public sector entities. As payroll expenditure is well forecast and agreeable to underlying payroll systems there is less opportunity for the risk of misstatement in this expenditure stream. We therefore focus on non-pay expenditure. As financial performance targets are measured on year end outturn, we consider the risk to be particularly prevalent around the year end and therefore focus our testing on cut-off of non-pay expenditure.</p>	<ul style="list-style-type: none"> Developed our understanding of OSCR's material expenditure streams including walkthrough of key transactions. Performing targeted review and testing of key expenditure streams during the year, including targeted transaction testing, including consideration of the regularity of expenditure incurred. Performing cut-off testing of expenditure transactions around the year end to ensure these had been allocated to the appropriate financial year. Reviewing post year end payments for any potential unrecorded liabilities. 	<p>Assurance gained that expenditure has been recorded within the appropriate financial year and that payables are free from material misstatement.</p> <p>We are satisfied that expenditure has been incurred in accordance with the type/nature of OSCR as an organisation</p>
Management override of controls	<p>As set out in ISA 240 there is a presumed risk that management override of controls is present in all entities. Override of controls is present in all entities.</p>	<ul style="list-style-type: none"> Developed our understanding of the entity level controls in place at OSCR that reduce the risk of management override Performed review of journal transactions for unusual transactions or balances. 	<p>We did not identify any significant areas of bias in key judgements by management. We have not identified any unusual or significant transactions during the course of the year that would indicate management manipulation.</p>

Other key areas of the financial statements

As part of our audit there were other key areas of focus during the course of our audit. Whilst not considered a significant risk, these are areas of increased risk due to their complexity or magnitude. This includes areas of key estimation and judgement and application of accounting policies.

Commentary:

OSCR's accounting policies are in accordance with IFRS as interpreted and adapted by the FReM and we consider these to be appropriate to the organisation. These have been applied consistently to the previous year with the exception of the adoption of two new accounting standards IFRS 9 and 15. Neither of these standards had a material impact on the financial statements.

Accounting estimates and judgements:

Overall the OSCR accounts are considered simple accounts with no areas of estimate or judgement. 71% of costs are payroll costs or fixed costs.

There are no provisions or uncertainties related to the accounts.



Going concern

OSCR has an agreed budget for 2019/20 with an uplift to £3.3m.

OSCR, as set out in the performance and accountability reports, consider themselves a going concern. They have an agreed budget with the Scottish Government for 2019/20 and are working on financial plans up until 2023 although only receive a one year budget settlement. Given OSCR's role as the charity regulator, their role is set out in Scottish legislation and we have no reason to believe this legislation will change. On this basis we agree with managements assertion they meet the going concern criteria.

Fraud and irregularity

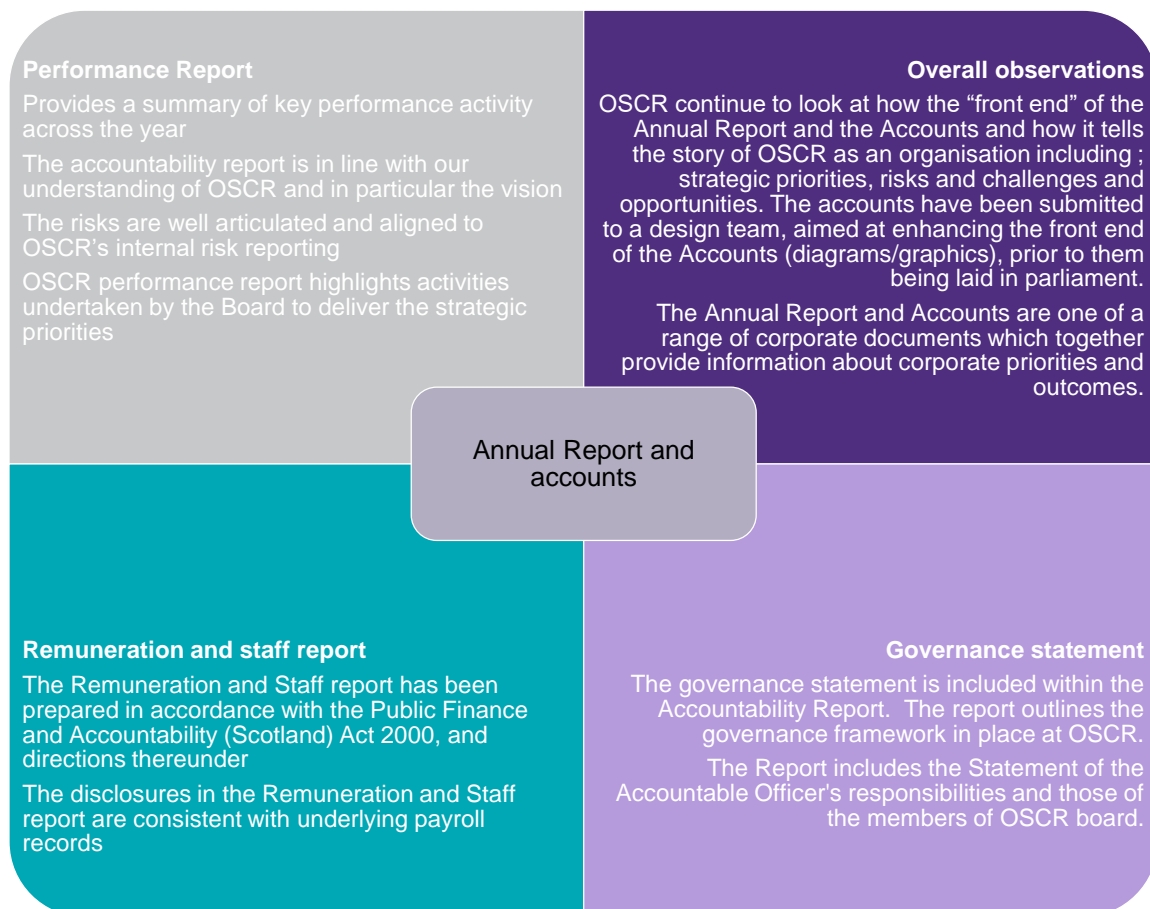
There are no provisions or uncertainties related to the accounts.

In relation to the audit risk of fraud in respect of expenditure we tested OSCR's cut of arrangements in particular (timing) and identified no issues in accruals or prepayments which would indicate potential fraud.

There are no post balance sheet events or legal uncertainties at year-end.

Narrative elements of your annual accounts

In accordance with our responsibilities we have reviewed your narrative aspects of the Annual Accounts and Report. We have considered the consistency of this narrative with our understanding and the financial statements and have set out our observations below. We have also audited the required information in the remuneration report (marked audited) and have no matters we wish to bring to your attention.



Financial arrangements and future direction

Key observations		
 <p>OSCR's financial position</p>	<p>OSCR annual budget set by the Scottish Government and is circa £3 million. A significant proportion of OSCR's annual expenditure is fixed, with pay costs contributing to 71 percentage of total expenditure.</p>	<p>Whilst a relatively simple budget setting exercise it does raise risks around future financial sustainability and ability to invest in future activities.</p>
 <p>Finances – The future</p>	<p>Recognising the fixed cost nature of OSCR as an organisation there is on an annual basis a limited amount of money available to fund new projects. In 2019/20, OSCR have secured a baseline increase in budget. This will help fund the salary increase from prior year and £160k will fund the start of the digital transformation strategy. During 2019/20 OSCR anticipate making savings by only recruiting the vacancies which are absolutely necessary and combining roles for efficiencies. However, they recognise this is only a short term solution and there is still pressure on finance.</p>	<p>The financial constraints are recognised and OSCR are producing a medium term financial plan and continue to discuss with Government.</p>
 <p>OSCR 2023</p>	<p>OSCR's vision is "Charities you can trust and that provide public benefit". By 2023 (4 years) OSCR will be: Intelligently driven, proactive, risk led and targeted, sustainably resourced, agile, 100% on-line, connected, influential, and a great place to work. Over 2018/19 a number of work streams are planned to take this strategy forward and will link to a 4 year workforce plan, and medium term financial framework.</p>	<p>We will continue to consider the 2023 strategy and the progress during our 2019/20 external audit.</p>
 <p>Workforce</p>	<p>OSCR's workforce is its largest cost. Previously the workforce has been relatively stable, at circa 50 employees. However, with new Government Bodies being established in Dundee there is a risk that the OSCR staff will leave OSCR, and in the last 3 months there have already been a number of leavers. There is a risk therefore that OSCR do not have sufficiently skilled individuals to deliver OSCR activity or do not have sufficient capacity to undertake new work in the future.</p>	<p>Staffing is identified as a key strategic risk. OSCR are only recruiting where necessary. Whilst this creates a short term financial opportunity, longer term sufficient skills and expertise is required</p>
 <p>Other OSCR Matters</p>	<p>The only income source for OSCR is Grant in-aid from the Scottish Government. Looking ahead, similar to the English Charity Regulator, OSCR may need to explore options for charging for certain services, to generate sufficient income to invest in continuing to modernise OSCR and achieve the OSCR strategic priorities.</p>	<p>Sources of income are an area of ongoing conversation at the OSCR Board and will continue to be considered in light of future risks and opportunities.</p>

Other considerations

Key observations



BREXIT

There is considerable uncertainty around the potential impact of Brexit. Likely areas to impact OSCR are: workforce implications; funding; and regulation. We have used Audit Scotland's planning guidance to evaluate the Board's readiness for EU withdrawal across workforce (People and Skills); Finance; and Regulations. Using this guidance we can conclude that OSCR are well-prepared.

We found that OSCR has incorporated the risk of EU withdrawal into its risk management arrangements and monitored through Management and the Board. OSCR have produced guidance on BREXIT for charities, illustrating sound governance and this consideration. From a corporate perspective, OSCR have considered the impact on staff within the organisation. However, work is ongoing and there are opportunities for further consideration of evaluation of the medium to longer term implications of EU withdrawal/ Non-withdrawal at the Board. In particular, the potential longer term consequences of EU withdrawal. There is consideration that this would result in more charitable applications.

Overall, we conclude that OSCR demonstrates a good level of preparation for EU Withdrawal. We would therefore conclude that the organisation is Well Prepared. We would recommend continuous risk management around BREXIT and planning as the position continues to evolve.



Other OSCR Matters

OSCR is a small organisation and it was noted that during the year OSCR entered into an SLA (Service Level Agreement) with SSSC to support with their financial arrangements. This was actioned given the finance assistant changed role within OSCR outside of the finance function.

It was noted that this arrangement is working well for OSCR, as they are not reliant on one person and it provides cost savings rather than hiring new finance personnel.

Appendices

Action plan and follow up of 2017/18 recommendations

Independence, fees and fraud responsibilities

Communication of audit matters with the Accountable Officer

Audit adjustments

Uncorrected and corrected misstatements

We are pleased to report that there were no uncorrected misstatements to the financial statements arising during our audit.

Disclosure misstatements

In accordance with auditing standards we are required to highlight significant disclosure misstatements to allow Audit Committees to evaluate the impact of these matters on the financial statements.

Disclosure omission	Detail	Adjusted
	From our testing of related parties we noted one had been omitted in error. Although not material to OSCR there was potential for the transactions to be material to the related party entity.	
Related Parties disclosures within notes to accounts	Disclosures were updated in the annual report and accounts.	✓

Action plan and follow up of 2017/18 external audit recommendations

We have set out below, based on our audit work undertaken in 2018/19, those risks and recommendations we consider are of a higher risk to OSCR that Management may wish to consider in the future. We have also completed follow up of our 2017/18 recommendations and this is reflected below for information.

Recommendation

Agreed management response

Board minutes – Review of financial position

From review of Board meeting minutes, the level of scrutiny over financial information is not explicitly clear. Evidence of financial scrutiny at board level can be improved through more in-depth discussions and challenge and the capture within the minutes to the meeting. However, it is noted that the minutes and papers are publicly available which provides transparency and is good practice.

Management response: Agreed.

Discussion does take place. However, the discussions could be better captured in the minutes and made clearer.

Action owner: Head of Support Services

Timescale for implementation: July 2019

Accountable Officer arrangements

Now that the new chair of the board had been appointed, a succession plan should be put in place to appoint a permanent accountable officer.

Management response: Board chair is in discussion with Scottish Government over recruitment process. This will likely be June/ July that advert is run.

Action owner: Chair of Board

Timescale for implementation: June/ July 2019

Follow up of 2017/18 External Audit Recommendations

Action as at May 2019

Financial sustainability

Ongoing – We will review again during 2019/20

Since the 2016/17 external audit Management have re-looked at their financial planning arrangements. As part of the wider 2023 OSCR strategy, management are working on scenarios around future funding and the overall cost base of OSCR. . Management continue to look at the various future financial scenarios in relation to delivering on the strategy, and how the strategy, finance and workforce aligns.

Scottish Government Secondments

Ongoing – Secondments will continue to be considered as an option to facilitate effective workforce planning, and as a vehicle to ensure that the appropriate skills and experience are brought into the organisation, when required.

We will review during our 19/20 audit.

Fees, independence, fraud arrangements

External Audit Fee

Service	Fees £
External Auditor Remuneration	10,300
Pooled Costs	2,650
Contribution to Audit Scotland costs	600
Contribution to Performance Audit and Best Value	0
2017-18 Fee	13,550

The audit fee was calculated in accordance with guidance issued by Audit Scotland and agreed with Management.

The above fee has not changed and our final fee was £13,550

Fees for other services

Service	Fees £
We can confirm there are no non-audit fees for the 2018/19 financial year	Nil

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention.

We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

We are required by auditing and ethical standards to communicate any relationships that may affect the independence and objectivity of the audit team.

We can confirm no independence concerns have been identified.

Fraud arrangements

In assessing our audit risks, the audit team was alert to the possibility of fraud at OSCR.

As part of our audit work we are responsible for:

- identifying and assessing the risks of material misstatement of the financial statements due to fraud in particular in relation to management override of controls.
- Leading a discussion with those charged of governance (for OSCR this is assumed to be the Audit Committee) on their view of fraud. We did this when presenting our audit plan and in the form of management and those charged with governance questionnaires which were received in January 2019.
- designing and implementing appropriate audit testing to gain assurance over our assessed risks of fraud
- responding appropriately to any fraud or suspected fraud identified during the audit. – None were identified in-year

As auditors we obtain reasonable but not absolute assurance the financial statements as a whole are free from material misstatement, whether due to fraud or error.

We will obtain annual representation from management regarding managements assessment of fraud risk, including internal controls, and any known or suspected fraud or misstatement.

It is **OSCR's** responsibility to establish arrangements to prevent and detect fraud and other irregularity. This includes:

- developing, promoting and monitoring compliance with standing orders and financial instructions
- developing and implementing strategies to prevent and detect fraud and other irregularity
- receiving and investigating alleged breaches of proper standards of financial conduct or fraud and irregularity.

Throughout the audit we worked with OSCR to review specific areas of fraud risk, including the operation of key financial controls.

We also examined certain policies in place, strategies, standing orders and financial instructions, as relevant to the fraud framework, to ensure that they provide a reasonable framework of internal control.

No suspected frauds or irregularities have been identified by Management and reported in-year.

Communication of audit matters with the Accountable Officer

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, including planning assessment of audit risks and wider scope risks	•	
Confirmation of independence and objectivity	•	•
We are independent of OSCR and have not identified any conflicts of interest		
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
We have not incurred any non-audit fees during the year and no threats to independence identified		
Significant matters in relation to going concern	•	•
No significant going concern matters identified		
Views about the qualitative aspects of OSCR accounting and financial reporting practices, including accounting policies, accounting estimates and financial statement disclosures		•
Set out in the Financial statements section of our report		
Significant findings from the audit		•
No significant findings from our audit		
Significant matters and issues arising during the audit and written representations that have been sought		•
Letter of representation will be shared and signed by the Interim Accountable Officer when signing the financial statements. This is our standard, unmodified letter of representation.		
Significant difficulties encountered during the audit		•
No difficulties encountered		
Significant deficiencies in internal control identified during the audit		•
None identified		
Significant matters arising in connection with related parties		•
None identified		
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		•
None identified. A nil fraud return was submitted to Audit Scotland each quarter in accordance with the planning guidance.		
Non-compliance with laws and regulations		•
None noted		
Unadjusted misstatements and material disclosure omissions		•
None noted. Minor disclosure amendments only and these were not material in nature		
Expected modifications to the auditor's report, or emphasis of matter		•
None, an unqualified opinion		

International Standards on Auditing (UK) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table above.

We communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to OSCR Management and the Audit Committee.



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