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Partner introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Audit and Risk Assurance Committee (“ARAC”) of the Office of the Scottish Charity Regulator (OSCR) for the 2022/23 audit. The report summarises our findings and conclusions in relation to the audit of the Annual Report and Accounts and the wider scope requirements, the scope of which was set out within our planning report issued to the Committee in March 2023.

I would like to draw your attention to the key messages of this paper:

Conclusions from our testing

Based on our audit work completed to date, we expect to issue an unmodified audit report.

The Performance Report and Accountability Report comply with the statutory guidance and proper practice and are consistent with the Annual Accounts and our knowledge of OSCR. We provided management with comments and suggested changes based on review of the first draft and an update has been received confirming compliance.

The auditable parts of the Remuneration and Staff report have been prepared largely in accordance with the relevant regulation. The fair pay disclosure was not fully compliant within the draft accounts however has been updated in the final version.

A summary of our work on the significant risks is provided in the dashboard on page [9](#). OSCR met its financial targets for 2022/23, achieving an underspend of £40,000 against its budget.

Three corrected misstatements in excess of our reporting threshold of £3,300 has been identified up to the date of this report which is included within the Appendix to this report.

Partner introduction (continued)

The key messages in this report (continued)

Status of the Annual Report and Accounts audit

Our audit work is now complete.

Conclusions from wider scope audit work

- **Financial management** – effective budget setting and monitoring arrangements in place.
- **Financial sustainability** – financial balance has been achieved in 2022/23 and funding confirmed for 2023/24, however there remains uncertainty for 2023/24 as a result of the expected cost increases required to implement the new legislation. Without additional funding, there is a risk that OSCR is not financially sustainable and able to meet its statutory requirements in the short-term. The Chief Executive and Chair of the Board are in discussion with the Scottish Government to actively manage this risk.
- **Vision, leadership and governance** – OSCR has recently updated its vision and strategy as part of the 2023-26 Corporate Strategy. The transition to new non-executive Board members and new Chair of Board has gone smoothly. There is a positive culture of collaboration and partnership working. The governance arrangements also continue to be robust with a strong ARAC.
- **Use of resources to improve outcomes** – A clear performance management framework is in place which has evolved over 2022/23 and plans are in place to further enhance with a focus on outcomes and achievement of priorities as part of the new Corporate Strategy. OSCR has continued to perform well during 2022/23, actively managing its performance and taking appropriate action as required.
- **Best Value** - OSCR has sufficient arrangements in place to secure best value. It has a clear understanding of areas which require further development. Financial sustainability remains a key risk.
- **Climate change** – Recognising the small size of the organisation, it is clear that OSCR is committed to take action to meet the Scottish Government’s ambitious targets in relation to sustainability and climate.
- **Cyber risk** – Cyber security has been a high priority for OSCR over the past year and secured Cyber Essentials accreditation on 30 March 2023.

Partner introduction (continued)

The key messages in this report (continued)

Next steps

An agreed Action Plan is included on pages [35 to 36](#) of this report, including a follow up of progress against prior year actions.

Added value

Our aim is to add value to OSCR by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas for improvement and recommending and encouraging good practice. In so doing, we aim to help OSCR promote improved standards of governance, better management and decision making, and more effective use of resources. This is provided throughout the report.

Pat Kenny
Lead audit partner








Annual Report and Accounts Audit



Quality indicators

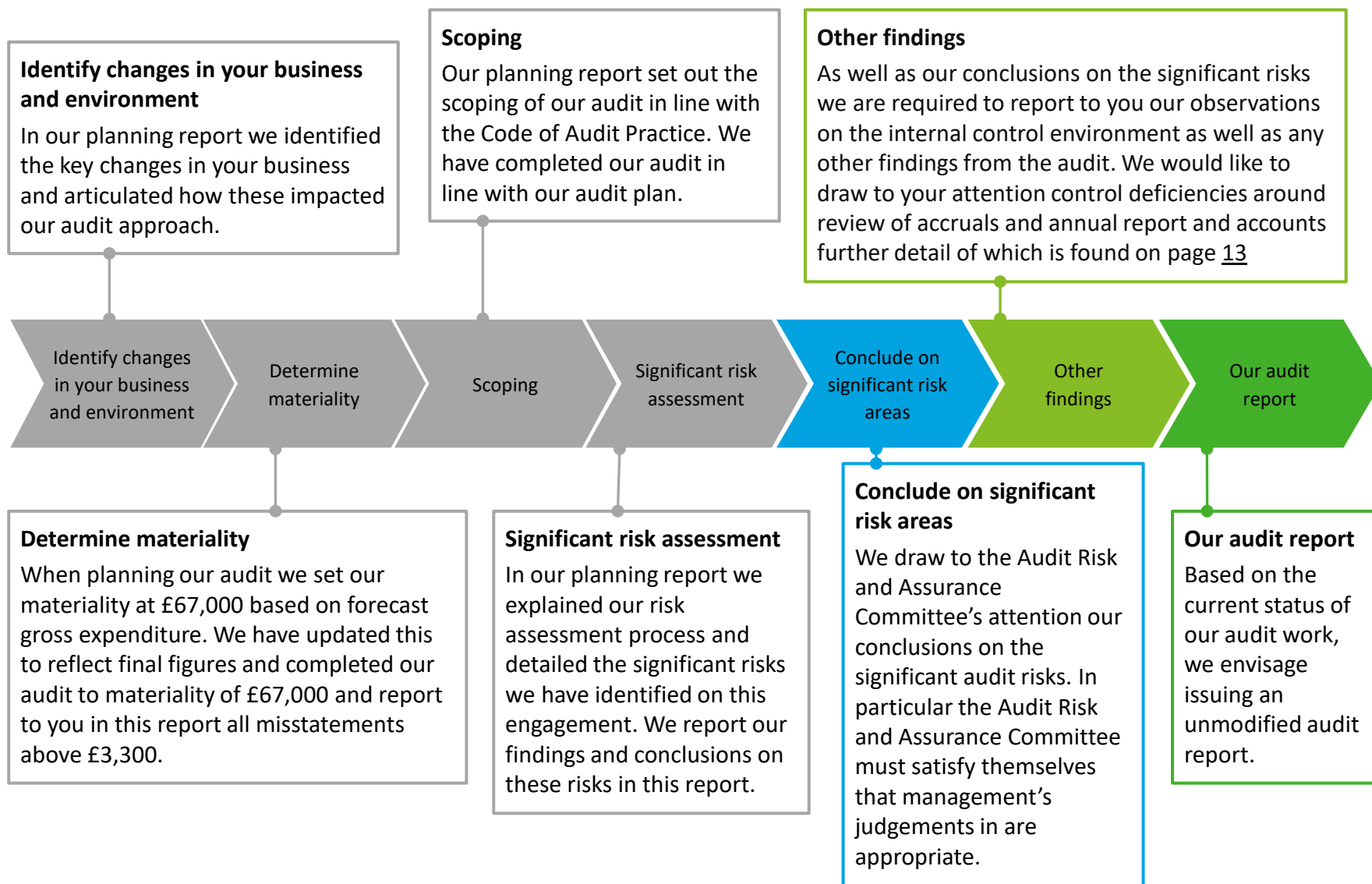
Impact on the execution of our audit

Management and those charged with governance are in a position to influence the effectiveness of our audit, through timely formulation of judgements, provision of accurate information, and responsiveness to issues identified in the course of the audit. This slide summarises some key metrics related to your control environment which can significantly impact the execution of the audit. We consider these metrics important in assessing the reliability of your financial reporting and provide context for other messages in this report.

Area	Grading	Reason	Further detail
Timing of key accounting judgements		Information was provided by the requested deadline and covered the points required.	N/A
Adherence to deliverables timetable		Management provided deliverables within agreed timelines.	N/A
Access to finance team and other key personnel		The audit team always had access to the finance team and key personnel from beginning through to the end of the audit process.	N/A
Quality and accuracy of management accounting papers		The majority of working papers provided were of a good quality. Some areas required resubmission following clarification of exact requirements.	N/A
Quality of draft Annual Report and Accounts		Quality of draft was generally of a high standard, however, areas of non-compliance were noted with regard to aspects of remuneration report and IFRS 16 disclosures.	Page 14
Response to control deficiencies identified		One reportable control deficiencies due to errors around the classification of accruals.	Page 13
Volume and magnitude of identified errors		Four errors have been identified. Two of these are material and relate to the implementation of IFRS 16 in the year.	Page 37

Our audit explained

We tailor our audit to your business and your strategy



Significant risks

Significant risk dashboard

Risk	Fraud risk	Planned approach to controls	Controls conclusion	Consistency of judgements with Deloitte's expectations
Management override of controls			Satisfactory	
Operating within the revenue budget			Satisfactory	

Controls approach adopted

 Assess design & implementation

Significant risks (continued)

Management override of controls

Risk identified

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

Although management is responsible for safeguarding the assets of the entity, we planned our audit so that we had a reasonable expectation of detecting material misstatements to the Annual Report and Accounts and accounting records.

Deloitte response and challenge

In considering the risk of management override, we have performed the following audit procedures that directly address this risk:

Journals

- We have tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the Annual Report and Accounts. In designing and performing audit procedures for such tests, we have:
- Tested the design and implementation of controls over journal entry processing;
- Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments;
- Selected journal entries and other adjustments made at the end of a reporting period; and
- Considered the need to test journal entries and other adjustments throughout the period.

Accounting estimates and judgements.

We have reviewed accounting estimates for biases and evaluate whether the circumstances producing the bias, if any, represent a risk of material misstatement due to fraud. In performing this review, we have:

- Evaluated whether the judgments and decisions made by management in making the accounting estimates included in the Annual Report and Accounts, even if they are individually reasonable, indicate a possible bias on the part of the entity's management that may represent a risk of material misstatement due to fraud. From our testing we did not identify any indications of bias. A summary of the key estimates and judgements considered is provided on the next page; and
- Performed a retrospective review of management judgements and assumptions related to significant accounting estimates reflected in the Annual Report and Accounts of the prior year.

Significant and unusual transactions

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Deloitte view

We have not identified any instances of management override of controls from our testing to date.

Significant risks (continued)

Management override of controls (continued)

Key estimates and judgements The key estimates and judgments in the Annual Report and Accounts includes those which we have selected to be significant audit risks around expenditure recognition (see page [12](#)). This is inherently the area in which management has the potential to use their judgement to influence the Annual Report and Accounts. As part of our work on this risk, we reviewed and challenge management’s key estimates and judgements including:

Estimate / judgement	Details of management’s position	Deloitte Challenge and conclusions
Dilapidations	As at 31 March 2023, OSCR has a provision of £162k for dilapidations, with no change to the provision carried forward from 2021/22. The value of the provision is based on information provided by Avison Young and comprises costs required to restore leased office space to their original state.	We have assessed the use of information provided by the independent experts and confirmed the existence of the obligation to provide for dilapidations within the lease agreements. We have reviewed both confirmatory and contradictory evidence and concluded that the value provided is reasonable and that the provision has been appropriately disclosed in line with reporting requirements.

Significant risks (continued)

Operating within the revenue budget



Risk identified and key judgements

Under Auditing Standards there is a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. We have concluded that this is not a significant risk for OSCR as there is little incentive to manipulate revenue recognition with all of revenue being from the Scottish Government which can be agreed to the Budget (Scotland) Act.

We therefore consider the fraud risk to be focused on how management operate within the revenue budget set by the Scottish Government. The risk is that OSCR could materially misstate expenditure in relation to year-end transactions, in an attempt to align with its tolerance target or achieve a breakeven position.

The significant risk is therefore pinpointed to the completeness of accruals and the existence of prepayments made by management at the year-end and invoices processed around the year-end as this is the area where there is scope to manipulate the final results. Given the financial pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of accruals and prepayments around year-end.



Deloitte response and challenge

We have evaluated the results of our audit testing in the context of the achievement of the limits set by the Scottish Government. Our work in this area included the following:

- Evaluating the design and implementation of controls around monthly monitoring of financial performance and the estimated accruals and prepayments made at the year-end;
- Obtain independent confirmation of the resource limits allocated to OSCR via the Budget (Scotland) Act;
- Perform focused testing of a sample of accruals and prepayments made at the year-end; and
- Performing focused cut-off testing of a sample of invoices received and paid around the year-end.

Deloitte view

We have concluded that expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers. Based on our testing to date, we confirm that OSCR has performed within the limits set by Scottish Government achieving an underspend of £40,000 and therefore is in compliance with the financial targets in the year.

We however identified a misclassification between accruals and payables of £61,000 as detailed in the Appendix to the report. This has a nil overall impact.

Your control environment and findings

Control deficiencies and areas for management focus

Observation	Deloitte recommendation	Management response and remediation plan
Due to the errors identified in classification of payables to accruals, this raises a concern as to the effective implementation of the control associated with review of accruals.	We recommend that accruals and payables be thoroughly reviewed to ensure that there are no misclassifications	Refer to action plan on page 35 .

Other significant findings

Financial reporting findings

Below are the findings from our audit surrounding your financial reporting process.

Qualitative aspects of your accounting practices:

OSCR's Annual Report and Accounts have been prepared in accordance with the Government Financial Reporting Manual (the "FReM"). Following our audit work, we are satisfied that the accounting policies are appropriate.

Significant matters discussed with management:

Matters relating to IFRS 16 were also discussed in management in the next column.

Regulatory change

IFRS 16, Leases, came into effect on 1 April 2022, therefore 2022/23 is the first year of implementation. This required adjustments to recognise on balance sheet arrangements previously treated as operating leases.

We tested the completeness of leases identified on transition. OSCR has one lease, being its office accommodation. We tested the transactions to assess accuracy of the Right of Use Asset and lease liability. We identified that these had not been separately disclosed within the draft accounts and the transition had been incorrectly treated as an addition in the year. Adjustments agreed with management are noted in the Appendix to this report.

Liaison with internal audit

The audit team, has completed an assessment of the independence and competence of the internal audit department and reviewed their work and findings. In response to the significant risks identified, no reliance was placed on the work of internal audit and we performed all work ourselves.

We have obtained written representations from OSCR on matters material to the Annual Report and Accounts when other sufficient appropriate audit evidence cannot reasonably be expected to exist. A copy of the draft representations letter has been circulated separately.

Our audit report

Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report.

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Our opinion on the Annual Report and Accounts

Our opinion on the financial statements is expected to be unmodified.



Going concern

We have not identified a material uncertainty related to going concern and will report that we concur with management's use of the going concern basis of accounting.

Practice Note 10 provides guidance on applying ISA (UK) 570 Going Concern to the audit of public sector bodies. The anticipated continued provision of the service is more relevant to the assessment that the continued existence of a particular body.



Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.



Other reporting responsibilities

The Annual Report is reviewed in its entirety for material consistency with the Annual Accounts and the audit work performance and to ensure that they are fair, balanced and reasonable.

Opinion on regularity

In our opinion in all material respects the expenditure and income in the Annual Report and Accounts were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page [16](#).

Your Annual Report and Accounts

We are required to provide an opinion on the auditable parts of the Remuneration and Staff report, the Annual Governance Statement and whether the Performance Report is consistent with the disclosures in the accounts.

	Requirement	Deloitte response
The Performance Report	The report outlines OSCR's performance, both financial and non-financial. It also sets out the key risks and uncertainties faced by OSCR.	<p>We have assessed whether the Performance Report has been prepared in accordance with the Accounts Direction. We have also read the Performance Report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>We provided management with comments and suggested changes which management have updated in the revised draft.</p>
The Accountability Report	Management have ensured that the accountability report meets the requirements of the FReM, comprising the governance statement, remuneration and staff report and the parliamentary accountability report.	<p>We have assessed whether the information given in the Annual Governance Statement is consistent with the Annual Report and Accounts and has been prepared in accordance with the accounts direction. No exceptions noted.</p> <p>We have also read the Accountability Report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading. We provided management with comments and suggested changes which management have updated in the revised draft.</p> <p>We have also audited the auditable parts of the Remuneration and Staff Report and confirmed that it has been prepared in accordance with the accounts direction. A few changes were required to the Fair Pay Disclosure, as discussed further on page 39. Management have corrected these in the final draft of the Annual Report and Accounts.</p>

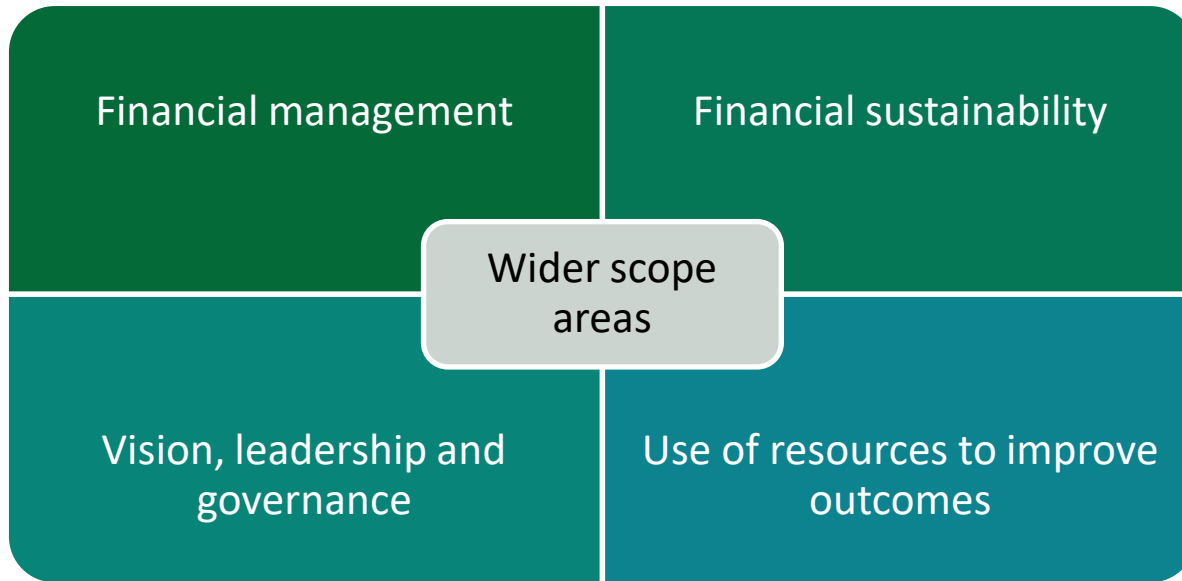
Wider scope audit



Wider scope requirements

Overview

As set out in our audit plan, Reflecting the fact that public money is involved, public audit is planned and undertaken from a wider perspective than in the private sector. The wider scope audit specified by the Code of Audit Practice broadens the audit of the accounts to include consideration of additional aspects or risks in the following areas.



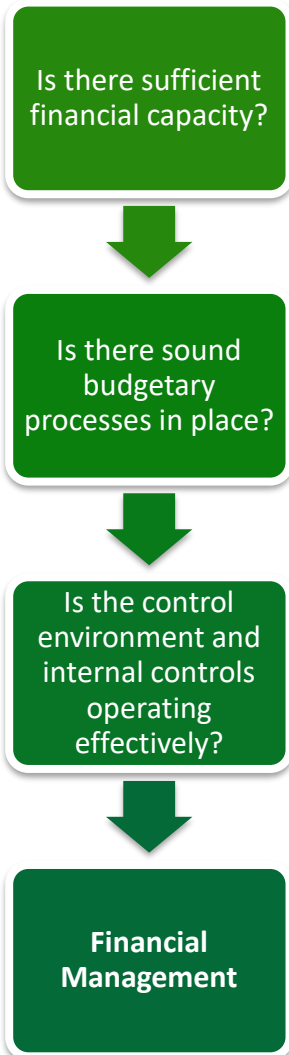
In its planning guidance, Audit Scotland has also highlighted the following national or sectoral risks that the Auditor General and Accounts Commission wish auditors to consider at all bodies during the 2022/23 audits:

- Climate change.
- Cyber security.

Our audit work has considered how OSCR is addressing these and our conclusions are set out within this report, with the report structured in accordance with the four dimensions. Our responsibilities in relation to Best Value ('BV') have all been incorporated into this audit work.

Wider scope requirements (continued)

Financial management



Significant risks identified in Audit Plan

We did not identify any significant risks in relation to financial management during our planning work. We therefore restricted our audit work to reviewing the budget monitoring to the Board during the year to assess whether financial management and budget setting has continued to be effective.

Current year financial performance

The 2022/23 budget was approved by the Board on 21 April 2022. OSCR's budget allocation appears as a single line item in the Annual Scottish Budget Bill. After receiving the allocation, OSCR has flexibility to determine how that money is spent and is split at a high level between staffing costs and goods and services.

OSCR has reported a small underspend of £40,000 at the end of the year against its budget allocation of £3.43 million. The key reasons for the variance was an underspend on salaries as a result of unplanned vacancies and onboarding timescales. These underspends were reallocated to accelerate a number of digital and office improvements which otherwise were unlikely to have been possible given the anticipated pressures in 2023/24 and beyond.

The digital work in particular has led to the development of an agile connected technical infrastructure which can be adapted by OSCR in house, rather than requiring specialist input. In addition, OSCR systems now work via platforms which will support delivery of the changes associated with the development of a register of Trustees.

The Senior Management Team and Board regularly review progress against budget through the year, with quarterly reporting to the Board. Any variances arising during the year are clearly reported and there is a clear link between the financial information reported in the year and the Annual Report and Accounts.

Following discussion by Board members during the year, enhancements have been made to the finance reports, and now include the following, which is in line with best practice:

- Links to business plan activities and priorities; and
- Profiling of spending and variances from original budget.

Wider scope requirements (continued)

Financial management (continued)

Finance capacity

The finance team has remained consistent throughout the year, being led by the Finance, Governance and Business Manager, who reports to the Head of Corporate.

The day to day accounting activities, and preparation of the annual accounts, is performed by the Shared Services team, led by the Head of Finance of the Scottish Social Services Council (SSSC). While there have been a number of changes to the finance staff within the shared service during the year, we have not identified any risks with the teams capacity that would impact on the financial management of OSCR.

Internal controls and internal audit

OSCR relies upon the financial systems provided by the Scottish Government, in particular the general ledger, purchase ledger and payment of invoices and payroll. A detailed Framework Agreement is in place, which was signed in February 2020. As part of this, OSCR use the services of the Scottish Government's internal audit team.

We have assessed the internal audit function, including its nature, organisational status and activities performed. We have reviewed all internal audit reports published throughout 2022/23. The conclusions have helped inform our audit work, although no specific reliance has been placed on this work.

The 2022/23 Internal Audit Plan was approved by the ARAC in February 2022 and comprised one piece of assurance work covering cyber and digital and strategic communication and stakeholder engagement, along with one advisory piece of work looking at assurance mapping. Detailed reports are provided to the Committee for each project.

Standards of conduct for prevention and detection of fraud and error

We have assessed OSCR's arrangements for the prevention and detection of fraud and irregularities. This has included specific considerations in response to the Audit Scotland's publication "Fraud and irregularities 2021/22 – sharing risks and case studies to support the Scottish public sector in the prevention of fraud". Overall, we found the arrangements to be to be designed and implemented appropriately.

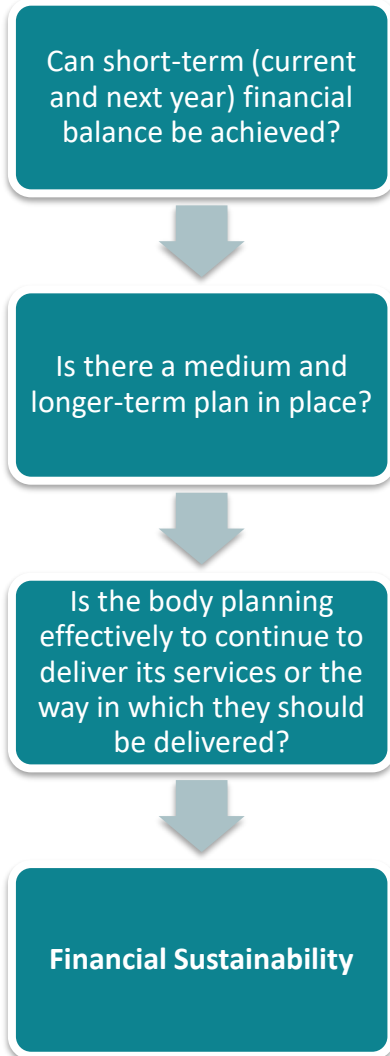
During 2022/23, the ARAC were asked to consider a draft of the Counter Fraud Strategy for Board approval.

Deloitte view – financial management

OSCR continues to have effective budget setting and monitoring arrangements in place. This is supported by an experienced finance team and a robust internal audit function, as well as appropriate arrangements for the prevention and detection of fraud and error.

Wider scope requirements (continued)

Financial sustainability



Significant risks identified in Audit Plan

In our audit plan we highlighted that the previous auditors had recommended that management look to develop medium term financial plans to underpin the Corporate Strategy. While additional resources to fund work directly associated with the legislative changes is expected, this had not been confirmed in writing at the time of our Audit Plan. There is a significant risk that OSCR does not have sufficient plans in place to manage its finances sustainably and deliver services effectively over the medium to longer-term.

Legislative changes

A key risk for OSCR relates to the implementation of the Charities (Regulation and Administration) (Scotland) Bill. Throughout 2022/23, OSCR has worked closely with the Scottish Government and the Cabinet Secretary in developing the Bill and its passage through Parliament. Evidence was provided to the Scottish Parliament's Social Justice and Social Security Committee in February 2023 in relation to the resource requirements associated with implementation. The Bill is expected to receive Royal Assent in the summer of 2023.

2023/24 budget setting

A paper setting out OSCR's position with its 2023/24 budget was considered by the Board in April 2023. While the funding for 2023/24 (and the following 3 years) has been advised via the publication of the Scottish Government Spending Review, there remains uncertainty around the funding associated with the costs in implementing the new legislation. As noted above, OSCR has provided details as part of the Financial Memorandum, setting out the estimated costs. One-off costs could be between £371,000 and £471,000 and recurring operation costs over the period of the Spending Review are expected to be on average between £66,000 and £182,000 per annum. Without additional fundings, OSCR would not be in a position to meet all the requirements of the new legislation. As a result of these uncertainties, the Board has not formally agreed a budget breakdown for the year. The matter is being progressed by the Chief Executive with discussions to continue once the legislation has been passed.

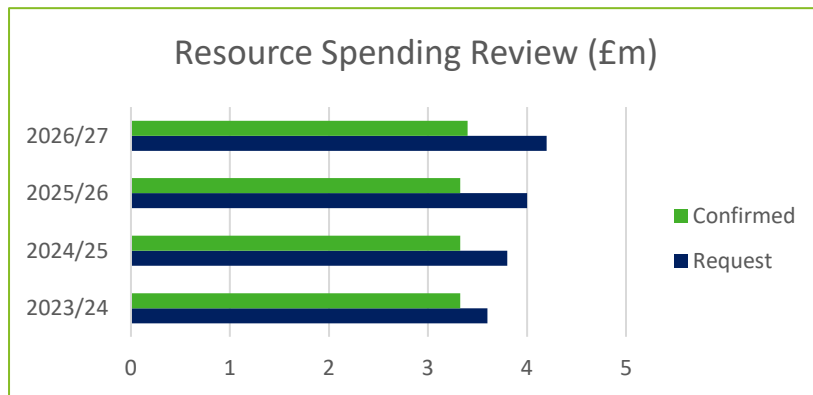
Wider scope requirements (continued)

Financial sustainability

Medium-to-long term financial planning

OSCR's medium term financial planning is considered as part of its financial updates to the Board rather than as a separate formal Medium Term Financial Plan.

As part of the Scottish Government Spending Review announced in May 2022, OSCR looked forward across the 5-year period 2022/23 to 2026/27 to identify the funding required and associate rationale, linking to the corporate plan. The final budget for this period fell short of the allocation, as illustrated below.



As part of the Spending Review, the Scottish Government expects bodies to set an annual efficiency target of 3% and also expects them to explore the scope to maximise the use of shared services across the public sector landscape. We have considered each of these element as applicable to OSCR as follows.

Savings targets

- OSCR currently do not include savings targets within its financial plans. A significant part of its financial monitoring is to closely monitor slippage early enough to allow time for alternative items of expenditure to be commissioned and incurred.
- In 2022/23, efficiencies were identified within OSCR processes as a result of changes made from the Digital Strategy. OSCR recognises it needs to continue to develop and expand its online services and information and data sharing. However, the shortfall in confirmed funding from the Spending Review has resulted in OSCR having to identify potential savings that could be used to fund the development.
- Whilst the current approach allows funding to be re-allocated to priority areas, it is reliant on slippage rather than any targeted work at making efficiency savings. Given the high proportion of staff costs determined by Public Sector Pay Policy which includes a commitment to no compulsory redundancies, achievement of such targets is likely to be challenging.
- Management recognise that some of the legislative changes are likely to lead to operational efficiencies in the medium term, however there will be a short-term cost in implementation.

Wider scope requirements (continued)

Financial sustainability

Medium-to-long term financial planning (continued)

Once the outcome of discussions on funding associated with the legislative changes has been concluded, OSCR should look to develop a medium term financial plan setting out the expected costs to deliver its strategy along with efficiency targets and how they are going to be achieved, against the 3% target. Any remaining funding gaps should be clearly identified along with potential impact on services.

Use of shared services

OSCR currently have a number of shared service agreements in place including:

- Facilities management with Care Inspectorate;
- Transaction finance and accounts preparation with SSSC;
- Procurement, HR and finance with Scottish Government; and
- Agreements in place with the Charity Commission and Scottish Housing Regulator and other regulators in respect of charities which are subject to regulation by more than one regulator.

Management has advised that the Scottish Government Delivery Bodies Network is considering the scope for shared services more widely.

Deloitte view – Financial sustainability

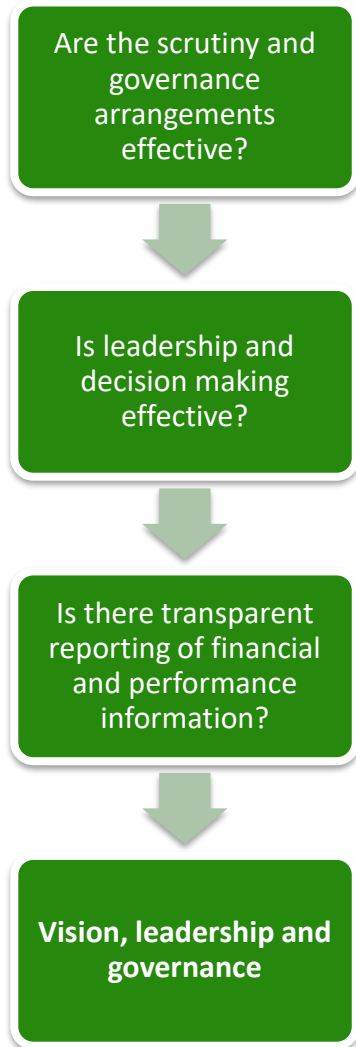
OSCR has achieved financial balance in 2022/23 and has confirmed funding for 2023/24, however there remains uncertainty for 2023/24 as a result of the expected cost increases required to implement the new legislation. Without additional funding, there is a risk that OSCR is not financially sustainable and able to meet its statutory requirements in the short-term. This is being progressed by the Chief Executive as a matter of urgency with discussions to continue once the legislation has been passed.

OSCR has a clear understanding of its cost pressures and the expected impact of the new legislation. It also has been able to achieve efficiencies, particularly through its Digital Strategy. Lack of up front funding is impacting on OSCR's ability to implement the changes required to make further efficiencies.

Once the outcome of the funding discussions is concluded, OSCR should develop a clear medium term financial plan to set out how it will delivery its strategy.

Wider scope requirements (continued)

Vision, leadership and governance



Significant risks identified in Audit Plan

In our audit plan, we identified an increased risk around the effectiveness of the governance and leadership arrangements in place as a result of a new Board Chair being appointed in October 2022 and new Board member appointments at the start of the year.

Vision and strategy

OSCR's current Corporate Plan covers the period 2020-23. Work has been ongoing to develop the next iteration, with the 2023-26 Corporate Strategy due to be published in June 2023. As part of development of the plan, there was engagement with both staff and Board members, and also has been discussed across the sector to set out planned work. The new strategy sets out how OSCR will continue to use data and intelligence to focus its work on activities which have high regulatory impact.

As part of Internal Audit's 2022/23 work, it carried out a review of Strategic Communication and Stakeholder Engagement arrangements. A "substantial assurance" rating was provided recognising that OSCR has progressively enhanced its capacity, capability and culture since late 2020, enabled by a strong tone from the top, a refresh of the Board and an organisational restructure. The consequences of these changes are being reflected in business results to data and in arrangements for refreshing its suite of strategic plans.

Leadership

As noted above, a new Board Chair was appointed in October 2022 and new Board members appointments occurred at the start of the year. The senior management team has remained consistent during the year.

A comprehensive induction pack was provided to all new Board members with in person sessions held and separate induction provided to ARAC members. From our audit work, we have identified a positive culture of cooperation and working constructively in partnership.

Wider scope requirements (continued)

Vision, leadership and governance

Governance and scrutiny arrangements

The Scottish Government Framework Agreement, signed in 2020, was drawn up jointly by OSCR and the Scottish Government. This sets out the strategic relationship and a number of shared principles between OSCR and the Scottish Government, as well as the agreed terms in relation to the governance, financing and operation of the functions of OSCR. It forms a key part of the governance and accountability framework within which OSCR operates.

The ARAC continues to be a key element of the governance arrangements in place. In line with good practice, the Committee carries out an annual self assessment of its effectiveness. As a result of the changes in Board members and new Committee for 2022/23, the self assessment is expected to be considered at the ARAC meeting in June 2023.

The ARAC also provide oversight and scrutiny of the risk management activity. An updated Corporate Risk Register was reviewed by the Committee in February 2023, with updates provided on the work being done to manage the strategic risks.

We have reviewed meetings attendance from the past year and confirm that there has been well attended. In addition, from attendance at meetings we can confirm that there is sufficient scrutiny and challenge exercised by members during the meetings.

Transparency of reporting

All Board minutes are publicly available through its website, abridged to remove any private and confidential business. All meetings are held in private given regulatory role of OSCR.

The OSCR website includes a comprehensive suite of information including links to performance indicators, annual report and accounts and monthly expenditure reports, thereby demonstrating openness and transparency of decision making and performance information (which is considered further on page [26](#)).

Deloitte view – Vision, leadership and governance

OSCR has recently updated its vision and strategy, with the 2023-26 Corporate Strategy expected to be published in June 2023. The new Strategy has an increased focus on activities which have high regulatory impact.

The transition to new non-executive Board members and new chair has went smoothly, with comprehensive induction programme in place. There is a positive culture of collaboration and partnership working. The governance arrangements also continue to be robust, with a strong ARAC.

The Board continues to be open and transparent.

Wider scope requirements (continued)

Use of resources to improve outcomes



Significant risks identified in Audit Plan

In our audit plan we highlighted that, linked with the financial sustainability risk discussed on page [21](#), and the significant unplanned staff vacancies and onboarding delays during 2022/23, there was a significant risk that OSCR has insufficient resources (both financial and staffing) to meet its statutory obligations, particularly given the new legislation. There is also a risk that resources are not appropriately directed to improve outcomes.

Performance management framework

OSCR monitors and reports on its performance against the success indicators in the annual Business Plan with quarterly reporting to the Board. This information is also published on the OSCR website. In April 2022, the Board considered the information that should be monitored and agreed that performance information should be reported in 3 levels:

- Published information
- Board information
- Operational

The top two levels are reported to the Board. The reports to the Board have evolved during 2022/23 to now include a dashboard summarising the Key Performance Indicators (KPIs), along with updates on progress against business priorities.

As part of the development of the new Corporate Strategy for 2023-26, the Board has agreed a revised set of KPIs and performance information in line with the 3 levels noted above. This includes more detailed Board level KPIs to enable the Board to monitor progress against outcomes and Business Plan priorities. The new Strategy also has a focus on continuous improvement, with one of the key priorities being *“we will maintain a focus on best value, continuous improvement and collaboration”*.



Wider scope requirements (continued)

Use of resources to improve outcomes

Performance data

A summary of the performance reported to the Board during the year is provided below. From this it is clear that OSCR is actively managing its performance and taking appropriate action, including re-allocation of resources, in response to the data collated. A number of the 2022/23 KPIs are more output rather than outcome focussed therefore the move to monitoring progress against outcomes and priorities as part of the new Corporate Strategy is welcome.

Internal Audit also highlighted in its Annual Governance Review issued in April 2023 that whilst the current performance reports contain sufficient narrative to enable effective scrutiny by the Board, they could be enhanced by the addition of a RAG status against each project/action to highlight areas that might require more attention than others. Management has taken this forward as part of the development of the KPIs for the new Strategy.

Summary of performance		Action taken or planned
The median timescale to process applications for charitable status has reduced over the year from 73 days to 64 days.		The reduction reflects the process improvements which have streamlined handling of cases and the flexible use of staff
The number of concerns received increased in the last quarter of 2022 and the first quarter of 2023. The main trends identified were multiple concerns from separate individuals around the same issue received in relation to mainly community charities and concerns around employment issues.		A revised Draft Inquiry policy was considered by the Board in April 2023, including context of the actions being taken to reduce the number of inappropriate concerns received.






Improving or clear actions agreed to address changes in performance

Wider scope requirements (continued)

Use of resources to improve outcomes

Performance data (continued)

Summary of performance		Action taken or planned
<p>The timescale for considering applications for consent from charities was met in 96.2% of cases during 2021/22 (compared to 97% in 2021/22 and 96% in 2020/21). The number of consent decisions have increased over the last quarter of 2022 and the first quarter of 2023. This was largely due to the end of September and end of December being the two biggest peaks for annual returns prompting increase in applications for charities to wind up.</p>		<p>No further action planned.</p>
<p>The increase in visitors to the OSCR website is due to general increase in traffic to all areas of the website, with the biggest percentage increase in relation to “how to submit your annual return online”, There was also a 20% increase in register searches.</p>		<p>Work is ongoing to improve the website and any data in relation to visits and the areas visited will be incorporated into this.</p>
<p>The number of FOI requests has increased over the course of the year. All requests were responded to within the 20 working day deadline. In order to respond to the higher number of requests, OSCR increased the staff resource and provided training to colleagues, thereby increasing its resilience and ability to meet the statutory timescale associated with this work.</p>		<p>An analysis of the reasons for these to identify any trends will be undertaken in 2023/24 to highlight any areas where OSCR can change its communication or sharing of information to reduce the number of FOI’s received.</p>

Deloitte view –Use of resources to improve outcomes

OSCR has a clear performance management framework which has evolved over 2022/23 and has plan in place to enhance further with focus on outcomes and achievement of priorities as part of the new Corporate Strategy. The new strategy also has a clear focus on continuous improvement. Regular reporting on performance is provided to the Board.

OSCR has continued to perform well during 2022/23, actively managing its performance and taking appropriate action, including re-allocation of resources, in response to the data collated.

Wider scope requirements (continued)

Best value

Requirements

The Scottish Public Finance Manual (SPFM) explains that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value (BV).

Ministerial guidance to Accountable Officers for public bodies sets out their duty to ensure that arrangements are in place to secure Best Value in public services. As part of our wider scope audit work, we have considered whether there are organisational arrangements in place in this regard.

The duty of BV in Public Services is as follows:

- To make arrangements to secure continuous improvement in performance whilst maintaining an appropriate balance between quality and cost; and in making those arrangements and securing that balance;
- To have regard to economy, efficiency, effectiveness, the equal opportunities requirements, and to contribute to the achievement of sustainable development.
- BV characteristics have been recently regrouped to reflect the key themes which will support the development of an effective organisational context from which public services can deliver key outcomes and ultimately achieve best value:
 - Vision and Leadership
 - Governance and Accountability
 - Use of resources
 - Partnership and collaborative working
 - Working with Communities
 - Sustainability
 - Fairness and equality

Conclusions

OSCR has a number of arrangements in place to secure best value. As noted elsewhere within this report, the updated Corporate Strategy provides a clear vision and has specific focus on some of the BV characteristics including partnership and collaboration, use of resources and a focus on continuous improvement. There is strong leadership in place with a positive culture on collaboration.

Financial sustainability remains a key risk, as is the case across the public sector. OSCR is particularly impacted by the upcoming changes in legislation and the impact that will have on the resources required to meet the statutory requirements. The uncertainty around the funding for this is a significant risk to OSCR and is being progressed by the Chief Executive as a matter of urgency.

Deloitte view – Best Value

OSCR has sufficient arrangements in place to secure best value. It has a clear understanding of areas which require further development. Financial sustainability remains a key risk.

Wider scope requirements (continued)

Climate change

Risks identified in Audit Plan

Tackling climate change is one of the greatest global challenges. The Scottish Parliament has set a legally binding target of becoming net zero by 2045 and has interim targets including a 75% reduction in greenhouse gas emissions by 2030. The public sector in Scotland has a key role to play in ensuring these targets are met and in adapting to the impact of climate change.

The Auditor General and Accounts Commission are developing a programme of work on climate change. This involves a blend of climate change-specific outputs that focus on key issues and challenges as well as moving towards integrating climate change considerations into all aspects of audit work. For the 2022/23 audit, we have provided responses to a series of questions supplied by Audit Scotland to gather basic information on the arrangements for responding to climate change in each body. These are summarised below.

Question	OSCR position
1. What targets has the body set for reducing emission in its own organisation or in its local area?	No specific targets have been set for OSCR to reduce emissions other than the overall targets set out within the Climate Change (Scotland) Act 2009.
2. Does the body have a climate change strategy or action plan which sets out how the body intends to achieve its targets?	OSCR's Corporate Plan for 2020-2023 set out its contribution to the National Performance Framework. Within this it commits to work proactively as a small public body to meet all of the Scottish Government's ambitious sustainability and climate targets and will encourage charities in this endeavour. Its drive towards more online services is a key component of that work. An Environmental Strategy was agreed in 2022/23, which set specific environmental objectives and how it will measure its success.
3. How does the body monitor and report progress towards meeting its emissions targets internally and publicly?	OSCR monitor and report on carbon emissions to the Scottish Government, with data published on the Sustainable Scotland Network website.

Wider scope requirements (continued)

Climate change

Question	OSCR position
4. Has the body considered the impact of climate change on its financial statements?	No specific consideration has been given to the impact of climate change on the financial statements. Given the small size of the organisation, based in a single office which is shared with other public sector bodies, the expected impact on the financial statements is minimal.
5. What are the areas of the financial statements where climate change has, or is expected to have, a material impact?	As above, given the small size of the organisation, the expected impact on the financial statements is minimal. The shared office space is managed through a lease agreement and all heating, lighting, water and waste collection are managed through a shared service contract.
6. Does the body include climate change in its narrative reporting which accompanies the financial statements and is consistent with those financial statements?	OSCR has included a section on “sustainability report” within the Annual Report and Accounts setting out its achievements to date in reducing emissions, action taken in the year and link to the Environmental Strategy.

Deloitte view – Climate change

As a relatively small sized organisation, and as a consequence relatively low carbon emissions, the opportunities for emissions reductions are limited. OSCR’s Corporate Plan sets out how it will contribute to the National Performance Framework. An Environmental Strategy was agreed in 2022/23, which set specific environmental objectives and how it will measure its success and the Annual Report and Accounts include a section on its achievements to date. It is therefore clear that OSCR is committed to take action to meet the Scottish Government’s ambitious targets.

Wider scope requirements (continued)

Cyber risk

Area	Management actions	Impact on OSCR's Annual Report and Accounts	Impact on our audit
Cyber risk	<p>OSCR recognise cyber risk as part of its strategic risk register which is monitored by ARAC.</p> <p>Cyber security has been a high priority for OSCR over the past year and a number of changes to its IT infrastructure have been made to mitigate against the threat of cyber-attacks.</p> <p>In 2022/23, Internal Audit carried out a review of Cyber and Digital, with its final report issued in April 2023. A "substantial assurance" rating was provided recognising OSCR has made significant strides during 2022/23 in improving its cyber security and business continuity plans, supported by very effective scrutiny by the ARAC. This was reflected by OSCR's success in securing Cyber Essentials accreditation on 30 March 2023.</p>	Reference to the IT infrastructure changes made in 2022/23 has been included in the "key challenges" section of the Annual Report. Reference to achieving Cyber Essentials accreditation also disclosed.	<p>We have obtained an understanding the business and its internal controls in relation to cyber including assessing the maturity and coverage of the entity's cyber risk management programme. Internal Audit's report issued in April 2023 has informed this work.</p> <p>We obtained an understanding of the relevant laws and regulations in relation to the entity.</p>

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Audit Risk and Assurance Committee and the Board discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA (UK) 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations
- Other insights we have identified from our audit.

The scope of our work

Our observations are developed in the context of our audit of the Annual Report and Accounts.

We described the scope of our work in our audit plan.

Use of this report

This report has been prepared for OSCR, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

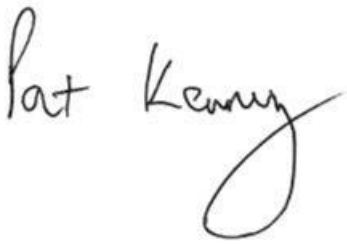
What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to OSCR.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.



Deloitte LLP
Glasgow | 6 June 2023

Appendices



Action Plan

The following recommendations have arisen from our 2022/23 audit work:

Recommendation	Management Response	Priority	Responsible Person	Target Date
<p>1. Medium-to-long term financial planning</p> <p>Once the outcome of discussions on funding associated with the legislative changes has been concluded, OSCR should look to develop a medium term financial plan setting out the expected costs to deliver its strategy along with efficiency targets and how they are going to be achieved, against the 3% target. Any remaining funding gaps should be clearly identified along with potential impact on services.</p>	<p>OSCR's budget for 2023-24 is confirmed at £3.3m, financial planning and modelling based on this allocation has been an ongoing activity over the course of the year and will be shared with the Board at the June 2023 meeting. Further meetings are scheduled to take place with SG in relation to funding for the implementation of the legislative change. OSCR's financial plans are subject to continual review, and budget allocations revised where required.</p>	Low	Finance, Governance and Business Manager/ Head of Corporate	21 June 2023/ ongoing
<p>2. Review of accruals and payables</p> <p>It is recommended that accruals and payables be thoroughly reviewed to ensure that there are no misclassifications</p>	<p>We have put in place a process to ensure we pick up any invoices received by 31 March but not input into the finance system to identify any accrued trade payables.</p>	Low	Finance, Governance and Business Manager/ Head of Corporate	Complete

Action Plan

We have followed up the recommendations made in by the previous auditors. We are pleased to note that one recommendation is ongoing

Recommendation	Management Response	Status
<p>1. Strategic financial planning</p> <p>Over the coming years OSCR are likely to face increasing financial pressures. The budget allocation from the Scottish Government has reduced to £3.43 million for 2022/23 and over the medium term OSCR is likely to face rising pay and non-pay costs pressure, putting further strain on resources available to invest strategically. It is therefore increasingly important that OSCR have a clear financial strategy over the coming years on how best utilising any uncommitted funds for strategic investment. While we recognise that the Scottish Government only provide annual funding, this should not prevent OSCR from developing strategic financial plans, helping to shape discussions with the Scottish Government around required funding each year. We recommend that Management look to develop medium term financial plans to underpin the Corporate Strategy.</p>	<p>As a result of the spending review announced on 6th June 2022, the budget for OSCR has been set out from year 2023/24 until 2026/27. Work on a financial strategy for this period has begun and has been shared with the board for discussion at the strategy day in August. OSCR's budget for 2023-24 was confirmed on 15th December 2022 as £3.3m. A medium term financial plan will be presented to the board at the February Board meeting.:</p>	<p>Ongoing – see updated recommendation on page 35.</p>

Audit adjustments

Corrected misstatements

The following misstatements have been identified up to the date of this report which have been corrected by management. We nonetheless communicate them to you to assist you in fulfilling your governance responsibilities, including reviewing the effectiveness of the system of internal control.

		Debit/(credit) SOCNE £	Debit/(credit) in net assets £	Debit/(credit) prior year reserves £	Debit/(credit) Equity £	If applicable, control deficiency identified
Misclassification of accruals and payables	[1]					Page 12
- Accruals			(61,005)			
- Payables			61,005			
Leasehold improvement disposals - write back:	[2]					NA
- Property Plant and Equipment (PPE)			141,281			
- Accumulated Depreciation			(141,281)			
Overstatement of prepayments	[3]	2,754	(2,754)			N/A
IFRS 16 transition:	[4]					N/A
- PPE Leasehold improvement Additions			(131,336)			
- Right of Use Asset - transition adjustment at 1/4/2022			131,336			
- PPP Leasehold improvement - Depreciation			124,838			
- Right of Use Asset - depreciation			(124,838)			
- Trade payables			6,498			
- Lease Liability			(6,498)			
Total		2,754	(2,754)			

Audit adjustments (continued)

Corrected misstatements (continued)

[1] This relates to payables wrongly classified as accruals even though invoices were received pre-year-end. This occurred because invoices were received very close to the year-end. This has therefore been linked to the control deficiency on review of accruals on [Page 12](#).

[2] Leasehold improvement and fitout works amounting to £141,281 were originally capitalised when OSCR started leasing the property. It has been depreciated over the useful life of the lease and was fully depreciated at 31st March 2023. This was wrongly disposed off in the books as it was still in use at 31 March 2023.

[3] An invoice amounting to £2,754 was wrongly recorded as a prepayment even though the transaction fully related to 2022/23. This occurred because the narration on the invoice was unclear. While this is below our reporting threshold, management chose to correct so included in report for completeness.

[4] A number of issues were identified in the recognition and presentation of the first time adoption of IFRS 16. These are as follows:

- Right of use assets was added to property, plant and equipment rather than being shown as a separate asset
- Transition arrangements –there were no prior year restatement of values for 2021/22
- The lease liability was not recognised separate to other liabilities. It was rather added to other liabilities.

These occurred because this was a new standard and there were challenges related to interpretation and application of the new standard,.

Audit adjustments

Disclosures

Other disclosure recommendations

Although the omission of the following disclosures does not materially impact the financial statements, we are drawing the omitted disclosures to your attention because we believe it would improve the financial statements to include them or because you could be subject to challenge from regulators or other stakeholders as to why they were not included.

Disclosure	Summary of disclosure requirement	Quantitative or qualitative consideration
Remuneration Report	<ul style="list-style-type: none">- The fair pay disclosure is missing the 25th and 75th quartiles which was a new requirement from last year.- The higher paid disclosure did not have a table saying how many staff are in each banding over £50k.	The disclosure must comply with FReM 6.5.23-26

Our other responsibilities explained

Fraud responsibilities and representations



Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Required representations:

We have asked OSCR to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity.

We have also asked OSCR to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error and their belief that they have appropriately fulfilled those responsibilities.



Audit work performed:

In our planning we identified the risk of fraud in management override of controls and operating within the revenue budget as key audit risks.

During course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements.

We have reviewed the paper prepared by management for the Audit Risk and Assurance Committee on the process for identifying, evaluating and managing the system of internal financial control

We will explain in our audit report how we considered the audit capable of detecting irregularities, including fraud. In doing so, we will describe the procedures we performed in understanding the legal and regulatory framework and assessing compliance with relevant laws and regulations.

Concerns:

No issues or concerns have been identified in relation to fraud.

Independence and fees

As part of our obligations under International Standards on Auditing (UK), we are required to report to you on the matters listed below:

Independence confirmation We confirm the audit engagement team, and others in the firm as appropriate, Deloitte LLP and, where applicable, all Deloitte network firms are independent of OSCR, and our objectivity is not compromised.

Fees The expected fee for 2022/23, as communicated by Audit Scotland in December 2022 is analysed below:

	£
Auditor remuneration	29,120
Audit Scotland fixed charges:	
• Pooled costs	1,930
• Audit support costs	1,020
• Sectoral cap adjustment	(17,570)
Total expected fee	14,500

There are no non-audit fees.

Non-audit services In our opinion there are no inconsistencies between the FRC's Ethical Standard and the Board's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Relationships We have no other relationships with the Board, its directors, senior managers and affiliates, and have not supplied any services to other known connected parties.



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