

# **Scottish Public Services Ombudsman**

Report on the 2006-07 Audit

July 2007

# Contents

<b>Section</b>	<b>Page</b>
Executive Summary	3
Financial Statements	5
Governance	7
Performance	9
Appendix A – Action Plan	11
Appendix B - Communication of audit matters to those charged with governance	14

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# Executive Summary

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## Introduction

We have audited the financial statements of the Scottish Public Services Ombudsman (the Ombudsman) for the year ending 31 March 2007 and examined aspects of the Ombudsman's performance and governance arrangements. This report sets out our key findings.

## Financial Statements

We have given an unqualified opinion on both the financial statements of the Ombudsman for 2006-07 and on the regularity of transactions undertaken during the financial year. During the year, the Ombudsman incurred net expenditure of £2.865 million, against a budget of £2.882 million. Staff costs accounted for 65% of total expenditure with administration (32%) and depreciation costs (3%) accounting for the remainder.

The Ombudsman's draft financial statements were presented for audit on 30 May 2007. The accounts and supporting working papers were of a high standard and, as a result, few adjustments had to be made following our audit.

## Governance

We found that the Ombudsman's governance arrangements operated well and within a generally sound control environment, commensurate with the scale of the Ombudsman's operations. The Ombudsman has not yet, however, established an internal audit function and the Risk and Audit Committee in place during the financial year did not fully comply with the Scottish Public Finance Manual (SPFM) good practice guidelines.

The Ombudsman has recently taken steps to establish an independent Audit Advisory Committee to fulfil the audit committee role and we will monitor the Ombudsman's progress in establishing an internal audit function as part of our 2007-08 audit.

## Performance

We carried out an overview of the Ombudsman's arrangements in relation to the duty to deliver best value and efficiency in the operations of her office. The Ombudsman is supported by a small organisation with limited resources and management capacity. In keeping with the size and scale of its operations, the Ombudsman does not have a formal process in place for best value or for measuring and monitoring efficiency, but key performance indicators have now been developed and steps have been taken to integrate best value in the 2007-08 Business Plan.

The Ombudsman is currently developing equality schemes to demonstrate how the organisation will continue to promote diversity and eliminate discrimination in all of its activities.

In 2005-06, Audit Scotland issued a report on behalf of the Scottish Parliamentary Corporate Body (SPCB), which reviewed the opportunities for the Ombudsman to share services with the other Commissioner bodies. Our

review considered the Ombudsman's response to the report, and what steps have been taken to address the recommendations raised. We found that:

- the Ombudsman's office continues to work closely with Commissioner bodies, the Scottish Executive and Scottish Parliament, and has considered a shared service approach in a number of areas; and
- staff continue to meet regularly with their counterparts in Commissioner bodies to discuss operational issues. This has led to the sharing of good practice across a range of administrative matters.

## The Way Forward

Our findings and recommendations are summarised in an Action Plan (Appendix A) that accompanies this report. The Action Plan has been agreed with the Ombudsman and incorporates the Ombudsman's response to audit recommendations.

The report includes some specific recommendations to strengthen internal controls. It is the responsibility of the Ombudsman to decide the extent of the internal control system appropriate for the management of her office.

## Acknowledgements

We would like to take this opportunity to thank the Ombudsman and the staff who have been involved in the audit for their assistance and co-operation.

This report is part of a continuing dialogue between the Ombudsman and Grant Thornton and is not, therefore, intended to cover every matter which came to our attention. Our procedures are designed to support our audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in the Ombudsman's systems and work practices.

The report is not intended for use by third parties and we do not accept responsibility for any reliance that third parties may place on. The report will be submitted to the Auditor General for Scotland and will be published by him on his website at [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**Grant Thornton UK LLP**

**July 2007**

# Financial Statements

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## Our Responsibilities

We audit the financial statements and give an opinion on whether:

- they give a true and fair view, in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers, on the state of affairs of the Ombudsman as at 31 March 2007 and of its net expenditure, recognised gains and losses and cash flows for the year then ended;
- they, and the part of the Remuneration Report to be audited, have been properly prepared in accordance with the Government Financial Reporting Manual (FRoM) and directions made thereunder by the Scottish Ministers; and
- in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

We also review the Statement on Internal Control by:

- considering compliance with Scottish Executive guidance;
- considering the adequacy of the process put in place by the Accountable Officer to obtain assurances on systems of internal control; and
- assessing whether disclosures in the Statement are consistent with the information emerging from our normal audit work.

## Overall Conclusion

We have given an unqualified opinion on the financial statements of the Ombudsman for the 2006-07 financial statements. We are able to conclude that the financial statements of the Ombudsman give a true and fair view of the financial position for the period from 1 April 2006 to 31 March 2007 and that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and relevant guidance.

## Standard of accounts and supporting papers

The Ombudsman's draft financial statements were presented for audit on 30 May 2007. The accounts and supporting working papers were of a high standard and, as a result, few adjustments were required to be processed following our audit.

## Financial Performance

The Ombudsman's Operating Cost Statement for the year records net expenditure for the financial year of £2,865,000. This total includes notional costs of £21,000 and depreciation charges of £96,000. Funding received from the Scottish Parliamentary Corporate Body (SPCB) of £2,882,000 was drawn down in full during the financial year. Capital expenditure of £22,000 was incurred during the year, significantly below the budget of £147,000. This was as a result of delays in developing bespoke complaints handling IT software and upgrading and replacing the ICT infrastructure.

Staff costs account for 65% of total expenditure with administration (32%) and depreciation costs (3%) accounting for the remainder.

## Statement on Internal Control

The Statement on Internal Control sets out the arrangements established and operated for risk identification and management, proposed future development of arrangements, and review of effectiveness of the system of internal control.

We are generally satisfied that the Statement complies with Scottish Executive guidance, that the process put in place by the Accountable Officer (the Ombudsman) to obtain assurances on systems of internal control is adequate and that the contents of the Statement are consistent with the information emerging from our normal audit work. However, we noted that the Risk and Audit Committee in place during the financial year did not fully comply with good practice, and the Ombudsman has not yet established an internal audit function.

***Action plan point 1***

## Indexation

The Ombudsman has not taken account of indexation in the calculation of the fixed assets balance. This means that fixed assets appear at historic cost, rather than the current cost, and may not therefore reflect the true value of each asset.

***Action plan point 2***

## ISA 260: Communication of Audit Matters to Those Charged with Governance

Our responsibilities in relation to the communication of audit matters to those charged with governance are covered in the International Standard on Auditing 260. Outcomes against the requirements of the Standard are reported in Appendix B to this report. In this context, our audit has identified only two unadjusted errors that we need to bring to the Ombudsman's attention.

# Governance

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## Introduction

Sound corporate governance is central to demonstrating best value, and incorporates the way in which an organisation manages its business, determines strategy and objectives and goes about achieving those objectives. It is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation. Good governance means:

- focusing on the organisation's purpose and on outcomes for citizens and service users;
- performing effectively in clearly defined functions and roles;
- promoting values for the whole organisation and demonstrating the values of good governance through behaviour;
- taking informed, transparent decisions and managing risk;
- developing the capacity and capability of the governing body to be effective; and
- engaging stakeholders and making accountability real.

As part of our 2006-07 audit, we assessed the adequacy of the Ombudsman's corporate governance arrangements against the Scottish Public Finance Manual. We examined:

- the structures and processes for decision making;
- risk management and systems of internal control;
- arrangements for the prevention and detection of fraud and irregularities;
- standards of conduct, integrity and openness; and
- reporting arrangements and monitoring of the Ombudsman's overall financial position.

## Key outcomes from our 2006-07 audit

We found that the Ombudsman operates within a generally sound control environment and has plans in place to strengthen governance arrangements. The Ombudsman's office follows the Scottish Executive's guidelines for Fraud and Whistle-blowing policies. Senior staff are required to register details of any interests and a record is kept by the Executive Board secretary. The Ombudsman also has good financial management and budgeting processes in place. The annual budget and monthly monitoring reports are reviewed and approved by the Executive Board.

The Ombudsman operated a Risk and Audit Committee during 2006-07. Membership of the Committee comprised entirely executive officers, which was not in compliance with SPFM requirements. The Ombudsman took steps to address this matter and established an Audit Advisory Committee in June 2007. The Committee

Governance

has three independent non-executive members with clear terms of reference to monitor financial reporting, the relationship with auditors, internal controls and risk management.

The Ombudsman must now ensure that the new members are given sufficient training and support to be able to perform their roles effectively. We understand that the Ombudsman's office has already provided a capacity building session to Audit Advisory Committee members, covering the role and remit of the organisation.

***Action plan point 3***

One of the key responsibilities of the Audit Advisory Committee is to monitor the Ombudsman's risk management arrangements. Effective risk management is the systematic identification and management of risks affecting the organisation, highlighting where action is required and where performance needs to improve. We found that the Ombudsman has established a system for identifying and evaluating all significant operational risks. Risks are assessed based on impact and likelihood and, importantly, the key controls to mitigate the risks are identified. However, we noted that the risks are not currently allocated to a responsible owner and there is no clear action plan in place to address the risks.

***Action plan point 4***

## Procurement

The capital budget for 2006-07 was underspent in the year as a result of delays in upgrading and replacing the ICT infrastructure and complaints handling IT software. The total estimated cost of procuring the ICT upgrade/replacement and the software system exceeded the threshold amount for EU tendering requirements. Capital projects present a risk to the Ombudsman as they require careful management to ensure they progress within budget and comply with EU procurement regulations. We will monitor the Ombudsman's progress in taking forward the procurement exercise for replacing its ICT infrastructure and complaints handling software as part of our 2007-08 audit.

***Action plan point 5***



# Performance

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## Introduction

Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. As part of our annual audit we are required to plan reviews of aspects of the arrangements to manage performance, as they relate to economy, efficiency and effectiveness in the use of resources.

The Ombudsman, as Accountable Officer for her office, has a duty to ensure public resources are used economically, efficiently and effectively. These arrangements were extended in April 2002 to include a duty to ensure 'best value' in the use of resources.

## Best value and efficient government

We carried out an overview of the Ombudsman's arrangements in relation to the duty to deliver best value and efficiency in the operations of her office.

The Ombudsman is supported by a small organisation with limited resources and management capacity. In keeping with the size and scale of its operations, the Ombudsman does not yet have a formal process in place for best value or for measuring and monitoring efficiency although steps have been taken to integrate best value in the 2007-08 Business Plan. The organisation has already developed three key performance indicators to monitor the timeliness of responding to complainants. Feedback from complainants has highlighted this as a key factor in satisfaction with the service provided. The Outreach Team were also involved with conferences and seminars relating to complaints processes in the NHS and Housing Association sectors. The main focus of this work is to help prevent complaints and to encourage organisations to learn from complaints to improve the quality of public services.

The workload of the Ombudsman is largely demand led and can be difficult to estimate. In 2006-07, the volume of complaints and enquiries received continued to rise from 3,698 in 2005-06 to 4,228 in 2006-07, an increase of 14%. Premature complaints, where complaints are made to the Ombudsman before they have been through the complaints procedures of the public body concerned remained a problem. As a result, the Ombudsman's office undertook an in-house research exercise during the year to identify why they receive so many premature complaints. As a result of this research the Ombudsman is producing a leaflet to provide advice on how to pursue a complaint, the legislative requirements before the Ombudsman can become involved and an explanation of why it is preferable to resolve complaints at source.

We will continue to monitor how the Ombudsman will measure and report on the achievement of best value and efficiency in the management of her office going forward.

**Action Plan Point 6**

## Equalities

The Ombudsman's office delivers services directly to members of the public across all communities. The SPSO currently has a policy statement in which it commits to providing equal opportunities in employment and in the service provided to complainants. The Ombudsman is currently developing equality schemes to demonstrate how the organisation will continue to promote equality and eliminate discrimination in all of its activities.

### **Action Plan Point 7**

## Shared services

In 2005-06, Audit Scotland issued a report on behalf of the SPCB which reviewed the opportunities for the Ombudsman to share services with the other Commissioner bodies in Scotland. Our review considered the Ombudsman's response to the report, and what steps have been taken to address the recommendations raised.

Audit Scotland recommended that the Ombudsman and Commissioners should continue to explore opportunities for sharing services and co-location and where appropriate exploit opportunities that may emerge from the Scottish Executive's Efficient Government Initiative.

Our review found that the Ombudsman's office continues to work closely with the Commissioner bodies, and has considered a shared service approach in some areas. The Scottish Information Commissioner, among others, currently uses the complaints handling database developed for the SPSO. In addition, staff from the Ombudsman's office continue to meet regularly with their counterparts in the Commissioner bodies to discuss operational issues. This has led to the sharing of good practice across a range of administrative matters.

Significant work was also undertaken by the Ombudsman's office to develop proposals for shared services with a number of other bodies including the Scottish Police Complaints Commissioner, the Scottish Commission for Human Rights and the Commissioner for Public Appointments in Scotland. Budgetary constraints prevented some of these shared services initiatives from being progressed during the 2006-07 financial year. However, the Ombudsman continues to keep this matter under review.

**Grant Thornton UK LLP**

**July 2007**

## Appendix A – Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
<b>Statement of internal control</b>					
1	The Ombudsman does not operate with an internal audit function.	Medium	The Ombudsman and Audit Advisory Committee should take steps to establish an internal audit function.	Agreed. The Terms of Reference for the Audit Advisory Committee (AAC) state that the AAC will advise on Internal Audit arrangements.	To be in place by quarter 3 of the 2007-08 year.
2	The Ombudsman has not taken account of indexation in the calculation of the fixed assets balance within the financial statements.	Medium	The Ombudsman should ensure that indexation is applied to fixed asset balances in future years to ensure that the current cost of assets is reflected in the financial statements.	Agreed. An adjustment has now been made within the 2007/08 accounts.	n/a
<b>Governance</b>					
3	The Ombudsman has recently established an independent Audit Advisory Committee with newly appointed non-executive members. Specific training needs for the new members have not yet been identified.	Medium	The Ombudsman should ensure that Audit Advisory Committee members are given sufficient information and training to support them in their role.	The members of the Audit Advisory Committee were selected on the basis of their significant knowledge and current experience of governance of public service bodies. Following on from the comprehensive induction programme, the Audit Advisory Committee will be consulted with at their next meeting regarding ongoing training requirements.	August 2007 and ongoing (second Audit Advisory Committee meeting)
4	Risks are not currently allocated to a responsible owner.	Low	The Ombudsman should assign ownership of risks to responsible owners to ensure that action to mitigate the risks is effectively managed.	Agreed. Within the Scheme of Control, the responsibility for managing risk sits with the Executive Board. The Head of Services is responsible for maintaining the risk register. The risk register is currently	Quarter 2 of 2007-08

Appendix A – Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
				being developed further to include named responsible individuals for specific risk areas.	
5	The Ombudsman is required to comply with EU tendering regulations in the award of contracts where applicable.	High	The Ombudsman should ensure that EU tendering regulations are followed in the awarding of the contract for their ICT infrastructure upgrade and replacement and complaints handling software.	The SPSO procurement policy, which would be used for the basis of any procurement, clearly outlines the need to follow EU tendering regulations.	As appropriate.

No	Finding	Risk	Recommendation	Management Response	Implementation date
<b>Performance</b>					
6	The Ombudsman has not yet established a formal approach to best value or efficient government although steps have been taken to integrate the principles within the 2007-08 Business Plan.	Medium	The Ombudsman should set out a more formal framework covering how she intends to measure, monitor and report on the achievement of best value and efficiency in the management her office going forward.	Agreed. This is set as an objective within the 2007-08 business plan.	Quarter 3 of 2007-08

## Appendix B - Communication of audit matters to those charged with governance

### ISA 260 – Communication of audit matters to those charged with governance

Under ISA 260, we are required to consider matters of governance interest that arise from the audit of the financial statements and communicate them with those charged with governance. The areas considered are as follows:

- a) Relationships that may bear on Grant Thornton’s independence and the integrity and objectivity of the audit engagement lead and audit staff;
- b) The overall approach to the audit including any limitations thereon, or any additional requirements;
- c) The selection of, or changes in, significant accounting policies and practices that have, or could have a material effect on the entity’s financial statements;
- d) The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements;
- e) Audit adjustments, whether recorded or not by the entity that have, or could have a material impact on the entity’s financial statements; and
- f) Those uncorrected misstatements aggregated by the auditor during the audit that were determined by management to be immaterial both individually and in aggregate to the financial statements as a whole.

### Key Findings

We summarise our key audit findings in relation to the above areas.

Ref	Area	Key Messages
A	Independence	<p>We are able to confirm our independence and objectivity as auditors and note the following:</p> <ul style="list-style-type: none"><li>• we are independently appointed by Audit Scotland;</li><li>• we comply with the Auditing Practices Board’s Ethical Standards; and</li><li>• we have not performed any non Code of Audit Practice (the Code) or advisory work during the year.</li></ul>

Ref	Area	Key Messages
B	Approach to the audit	<p>Our approach to the audit was set out in our 2006-07 audit plan. We have planned our audit in accordance with International Auditing Standards and the Code. Other key factors to highlight include:</p> <ul style="list-style-type: none"> <li>we consider the materiality of items in the financial statements both in determining the approach to audit them and in determining the impact of any errors; and</li> <li>we have been able to place appropriate reliance on the key accounting systems operating at the Ombudsman's office for final accounts audit purposes only.</li> </ul>
C	Accounting policies and practices	<p>We consider that the Ombudsman has adopted appropriate accounting policies in the areas covered by our testing. Accounting policies adopted were in accordance with the Government Financial Reporting Manual (FRM).</p> <p>The Ombudsman has considered and confirmed that her office remains a going concern. The Ombudsman is asked to confirm this through the Letter of Representation.</p>
D	Material risks and exposures	<p>The Ombudsman has considered and confirmed that her office has no material risks and exposures which should be reflected in the financial statements. The Ombudsman is asked to confirm this in the Letter of Representation.</p>
E	Audit adjustments and unadjusted errors	<p>We identified several minor disclosure amendments and reclassifications to improve the presentation of the accounts. We also identified two minor errors that did not require adjustment to the accounts. These are outlined below.</p>

## Accounting issues

### Indexation

The Ombudsman has not accounted for indexation in the calculation of the fixed assets balance. This means that fixed assets appear at historic cost, rather than the current cost, and they may not therefore reflect the true value of each asset.

### Fixed Asset Register

Detailed testing on the fixed asset register identified one error in the depreciation rate charged. The fixed asset register is maintained on an excel spreadsheet. One of the formulas on the spreadsheet used to calculate the monthly depreciation figure linked to the wrong cell. This meant that depreciation was understated by £7,567. Further testing confirmed that this was a one-off error and we are therefore satisfied that fixed assets are not materially misstated.

### Summary of unadjusted audit differences

This is a summary of audit differences identified during the course of our audit. These differences have not been amended as they are not material to the financial statements.

	Operating Cost Statement		Balance Sheet	
	Dr £000s	Cr £000s	Dr £000s	Cr £000s
<b>Adjustments affecting reported results</b>				
Application of indexation			21	21
Error in the spreadsheet used for calculating the depreciation charge for an asset	8			8
Adjustment to backlog depreciation reflecting indexation	3			3