

## Key Issues Memorandum

Office of the Commissioner for Public Appointments

For the year ended 31 March 2010

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# Grant Thornton

To the Auditor General for Scotland and the Office of the Commissioner for Public Appointments in Scotland (OCPAS).

The purpose of this memorandum is to highlight the key issues affecting the results of OCPAS and the preparation of the financial statements for the year ended 31 March 2010. It is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

We take responsibility for this memorandum, which has been prepared on the basis of the limitations set out in 'The small print' (Section 6).

We would like to take this opportunity to record our appreciation for the kind assistance provided by the Business Manager and other staff during our audit.

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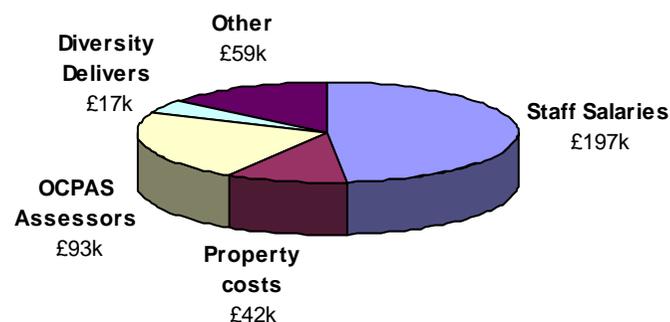
# 1 Executive Summary

<b>Financial Statements</b>	
Audit Opinion	<ul style="list-style-type: none"> <li>We intend to give an unqualified opinion on both the financial statements of OCPAS for 2009-10 and on the regularity of transactions undertaken during the financial year.</li> </ul>
Financial Statements	<ul style="list-style-type: none"> <li>The draft Financial Statements and supporting working papers were presented for audit on the 7th June 2010 and were of a high standard. This meant that no audit adjustments were required to be made to the accounts.</li> </ul>
IFRS Conversion	<ul style="list-style-type: none"> <li>We carried out a comprehensive review of the draft 2009-10 IFRS accounts against the requirements of the 2009-10 FReM.</li> </ul>
<b>Governance Issues</b>	
Merger with the Chief Investigating Officer	<ul style="list-style-type: none"> <li>OCPAS will be merged with the Chief Investigating Officer from April 2011 to create a new body called the Commission for Ethical Standards in Public Life in Scotland. Our audit confirms that OCPAS is making good progress in planning and implementing the merger.</li> </ul>
Advisory Audit Board (AAB)	<ul style="list-style-type: none"> <li>We reviewed the AAB against good practice principles within the Audit Committee Handbook, and identified scope to improve compliance with good practice guidelines.</li> </ul>
<b>Performance Issues</b>	
Best Value	<ul style="list-style-type: none"> <li>OCPAS has made good progress in achieving Business Plan objectives despite the absence of a key staff member for most of the year. This represents a significant achievement for the organisation.</li> </ul>

## 2 Financial Reporting

### 2.1 Financial Statements

	2010 £'000	2009 £'000
<b>Admin Costs</b>		
Staff Costs	197	201
Other admin costs	210	200
Depreciation	1	1
Operating Income	0	(2)
<b>Net Operating Costs</b>	<b>408</b>	<b>400</b>



### Financial Performance

The Commissioner receives cash funding from the Scottish Parliamentary Corporate Body (SPCB) for her annual budget. Expenditure during the year was £15k lower than the cash budget, of £423,000. This underspend resulted from delays in developing the Code of Practice and due to the departure of a member of staff.

Staff costs are the main area of OCPAS' expenditure and accounted for 48% of total costs during the year. In 2009-10, salaries were £9k less than the budget of £208,000 as a result of the resignation of the Development Manager in January 2010. OCPAS has undertaken a recruitment exercise for the post and the Commissioner is considering the best option to fill this role in the light of the merger and in the context of substantial financial pressures.

All other categories of expenditure were in line with prior year and budgeted figures, with the exception of OCPAS Assessor Fees.

### OCPAS Assessor Fees

Assessor fees for the year were budgeted to be £71k, which was based on 40 completed appointment rounds. Actual costs were £93k with only 32 rounds being completed. This is due to the increased amount of time spent on the individual appointment rounds since 2008/09, where 52 rounds were completed, at a cost of £95k. The average cost of an appointment round has increased from around £1.8k in 2008-09, to around £2.9k in 2009-10. This has been discussed with OCPAS and the reason for this additional time spent is due to a number of difficult appointment rounds taking place in 2009/10. Specific instances of concerns raised during the year will be reported in the Commissioner's Annual Report.

## 3 Financial Statements

### 3.1 Introduction

In the conduct of our audit, we have not had to alter or change our audit plan, which we communicated to you in our Audit Approach Memorandum.

Our response to the matters identified at the planning stage are detailed below.

#### Status of audit

The draft Financial Statements and supporting working papers were presented for audit on the 7th June 2010 and were of a high standard. This meant that no audit adjustments were required to be made to the accounts.

### 3.2 Audit opinion

We intend to conclude that the Commissioner's financial statements give a true and fair view of the financial position for the period from 1 April 2009 to 31 March 2010 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. We confirm that information which comprises the management commentary, included with the Annual Report, is consistent with the financial statements.

### 3.3 Matters identified at the planning stage

	Issue	Auditor response
1	<p><b>International Financial Reporting Standards (IFRS)</b> Central government bodies are required to prepare their accounts on the basis of IFRS from 2009-2010. In readiness for this, OCPAS prepared an opening 2008 IFRS-based balance sheet which we have already reviewed and reported on.</p> <p>OCPAS also produced full shadow IFRS accounts for 2008-09 by the due date of 30 November 2009.</p>	<p>We have carried out a comprehensive review of the draft 2009-10 IFRS accounts against the requirements of the 2009-10 FReM. There were no material errors identified and the accounts are IFRS compliant.</p>

## 4 Audit adjustments

### 4.1 Misstatements

We identified only one misstatement during the course of the audit, reflecting the high quality of accounts and working papers supplied by the Commissioner. The misstatement relates to work performed by Grant Thornton on pensions. As the work related to the 2008/09 financial year, the costs should have been reflected in that financial year. The error is wholly immaterial and we have therefore not required OCPAS to restate the accounts.

### 4.2 Unadjusted misstatements

Journal	Balance sheet		Operating Cost Statement		Effect on OCS	Adjusted Y/N	Reason for not adjusting
	Dr	Cr	Dr	Cr			
CR OCS Income				1,725			
DR Accruals	1,725						
	1,725	0	0	1,725	1,725	N	Wholly immaterial

## 5 Governance

### 5.1 Introduction

Corporate governance is the system by which organisations direct and control their functions and relate to their stakeholders, 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.

### 5.2 Audit Approach

As part of our 2009-10 audit, we assessed the adequacy of OCPAS's governance arrangements against good practice standards for the public sector.

We examined:

- Segregation of duties arrangements
- arrangements for the merger with the Chief Investigating Officer
- the role of the AAB

Specific issue identified in the AAM	Response
<p><b>Segregation of Duties</b></p> <p>The Commissioner operates in a small environment with just 3 full time employees. One of the members of staff was on long term sick leave during 2009-10, and subsequently left the organisation in January 2010. We will review the impact that this absence has had to ensure that segregation of duties controls were maintained, or alternative arrangements established.</p>	<p>We completed our review of the effectiveness of financial controls during the interim audit visit and found no significant deficiencies. OCPAS maintained effective financial control arrangements during the year.</p>

Specific issue identified in the AAM	Response
<p><b>Commission for Ethical Standards in Public Life</b>            The Commissioner's Office will be merged with that of the Chief Investigating Officer in April 2011, to become the Commission for Ethical Standards in Public Life. The Commissioner should implement a strategy for the merger, as well as both a budget and timetable.</p>	<p>The Bill for the creation of the Commission for Ethical Standards in Public Life in Scotland was launched in January 2010, after a number of months of consultation with both OCPAS and the Chief Investigating Officer. Once the Bill was launched a merger working group was created, with the first meeting taking place in March 2010. A project plan was developed after this first meeting, outlining a schedule for the merger, and key target dates. The merger is at present running in accordance to schedule with a number of key objectives achieved such as:</p> <ul style="list-style-type: none"> <li>• the organisational structure and chart for the new body has been agreed</li> <li>• staff terms and conditions have been agreed by both merging bodies</li> <li>• the 2011/12 budget setting process budget is well underway. The budget is due to be presented to the SPCB on 31st July 2010.</li> </ul> <p>The main objectives for 2010 relate to drafting the preliminary joint business plan and agreeing joint policies. We will review the progress of the merger as part of our 2010/11 audit.</p>

Specific issue identified in the AAM	Response
<p><b>The Advisory Audit Board (AAB)</b>  The AAB fulfils the audit committee role at the Commissioner's office, but there is a risk that it may not be fully compliant with the principles laid out in SPFM (audit committee handbook).</p>	<p>During our interim audit we reviewed the AAB against good practice principles within the Audit Committee Handbook. We found that although the AAB provides some assurances to the Commissioner on the effectiveness of internal control arrangements, it does not have a role in relation to risk management, meets only once each year, and does not evaluate its effectiveness annually. We also noted that the proposed changes to the role of the SPCB may affect the independence and objectivity of the AAB.</p> <p>AAB members are drawn from the SPCB's AAB and provide a similar audit committee and advisory function for a number of SPCB sponsored bodies. This approach is effectively a shared service and provides much valued support to the Commissioner. The dual role of the AAB does, however, present a potential conflict of interest for AAB members - and the potential for a conflict of interest to emerge is greater in light of the increased role for the SPCB in monitoring and directing sponsored bodies.</p> <p style="text-align: right;"><b>Refer to Action Plan Point 1</b></p>

## 6 Performance and Best Value

### 6.1 Introduction

All public bodies in Scotland have a duty to secure Best Value and continuous improvement. The public sector is facing a period of significant financial austerity, with significant budget cuts forecast for the period to 2013-14. Each of the SPCB supported bodies has been notified that they are likely to be required to make around 15-20% real terms reductions in budgets by 2013-14. In many areas this means that the current level of service provision is unsustainable. Public pressure to deliver services as efficiently and cost effectively as possible means that being able to demonstrate that the organisation delivers Best Value is more important than ever.

### 6.2 Delivering Efficiencies

The scale of budget cuts required to be found by SPCB supported bodies means that the current way of working is no longer viable. The Commissioner's target is to cut spending by 5 - 7.5% each year for the next three years.

The SPCB has facilitated working groups to allow the Commissioner and Ombudsman office holders to work together to improve efficiency and best value in terms of shared services and accommodation.

OCPAS had begun working on options for relocation with the Chief Investigating Officer in advance of the budget announcement. The working group will inform whether accommodation can be found which achieves a saving and is appropriate to the role of the Commissioner.

In the *Improving Public Sector Efficiency* Report<sup>1</sup>, Audit Scotland note that there is scope for public sector bodies to make significantly greater improvements in efficiency than have been achieved to date, and the need to do so is increasingly pressing.

Audit Scotland has produced a good practice checklist designed to challenge and support public bodies in making efficiency improvements. Looking ahead, this approach may help the new Commission identify further areas for improvement, for example by focusing service reviews to ensure that each area of the business contributes to the organisation's key priorities.

**Refer to Action Plan Point 2**

### 6.3 Performance against 2009/10 Business Plan

We carried out a review of the achievements that the Commissioner's office has made against its 2009/10 targets. The Commissioner lost one of the three full time members of staff during 2009/10, firstly due to ill health, and thereafter leaving the organisation. As a result, it was not possible for OCPAS to deliver all of the Business Plan targets. The key area for delivery in 2009/10 was the development of a new Code of Practice and the introduction of new methods for monitoring compliance with the Code of Practice.

Although OCPAS were unable to complete this work by the end of the financial year, the draft Code was issued for final consultation on 10th June 2010. Significant work was completed throughout 2009/10

<sup>1</sup> *Improving Public Sector Efficiency*, Audit Scotland, February 2010

concerning this area with a proposal for the revised code being made, and consultation events being held with OCPAS Assessors, the Chairs of Public Bodies and Senior Civil Servants on the proposed revisions.

#### **6.4 Difficulty in obtaining information from the Scottish Government**

It has been brought to our attention that throughout 2009/10, the Commissioner's office has experienced increased difficulty in obtaining information from the Scottish Government regarding complaints about the public appointments process. This is affecting OCPAS' ability to carry out its statutory duty to investigate complaints. This is an ongoing issue which we will continue to monitor in 2010/11.

**Refer to Action Plan Point 3**

## 7 Action Plan

	Issue and risk	Assessment	Recommendation
1	<p><b>Advisory Audit Board</b> The Commissioner's existing governance arrangements have not been subject to review for some time and may not fully reflect the challenges the organisation now faces.</p>	Medium	<p>The Commissioner and the AAB should consider whether the current AAB arrangement continues to fully meet the needs of the organisation. In particular, the Commissioner should consider audit committee arrangements for the new merged organisation.</p> <p><b>Management Response:</b>  Agreed</p>
2	<p><b>Improving Efficiency Good Practice Checklist</b> Audit Scotland has produced a good practice checklist designed to challenge and support public bodies in making efficiency improvements.</p>	Medium	<p>The Commissioner should use the good practice checklist as an aide-memoir to identify potential areas for continuous improvement. This may be helpful in focusing future service reviews, following the merger with the Chief Investigating Officer, to ensure that services are delivered as efficiently as possible.</p> <p><b>Management Response:</b>  Agreed</p>
3	<p><b>Access to Information</b> The Commissioner's office is experiencing difficulty in obtaining information from the Scottish Government regarding unsuccessful candidates, even with the individual's consent. This is having an operational impact in enabling the Commissioner to fully meet the legislative requirements of her Office.</p>	Medium	<p>The Commissioner should discuss this matter with the AAB and consider options for improving Scottish Government compliance.</p> <p><b>Management Response:</b>  Agreed</p>

## 8 The small print

### Purpose of memorandum

This Key Issues Memorandum has been prepared for the benefit of discussions between Grant Thornton and the Accountable Officer (the Commissioner).

The purpose of this memorandum is to highlight the key issues affecting the organisation's results and the preparation of the financial statements for the year ended 31st March 2010.

This document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

We would point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of OCPAS.

This memorandum is strictly confidential and although it has been made available to management to facilitate discussions, it may not be taken as altering our responsibilities to OCPAS arising under our audit engagement letter.

### Responsibilities of the Accountable Officer (the Commissioner) and auditors

The Commissioner is responsible for the preparation of the financial statements and for making available to us all of the information and explanations we consider necessary. Therefore, it is essential that the Commissioner confirms that our understanding of all the matters in this memorandum is appropriate, having regard to their knowledge of the particular circumstances.

### Clarification of roles and responsibilities with respect to internal controls

The Commissioner is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance that she has done so.

The Commissioner is required to review the body's internal financial controls. In addition, management are required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk.

The Commissioner should receive reports from management as to the effectiveness of the systems they have established as well as the conclusions of any testing conducted by internal audit or ourselves.

We have applied our audit approach to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you.

In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

In accordance with best practice, we analyse our fees below:

	£
Audit	7,600

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- the form of reports expected