

## Key Issues Memorandum

Office of the Commissioner for Public Appointments in  
Scotland

For the year ended 31 March 2011

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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 2011. 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).

This is the final year of our five year appointment as external auditors to OCPAS. We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

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# 1 Executive summary

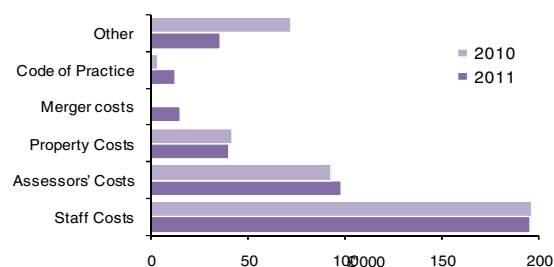
<b>Financial reporting issues</b>	
Audit Opinion	<ul style="list-style-type: none"> <li>We intend to give an unqualified opinion on both the Financial Statements of OCPAS for 2010-11 and on the regularity of transactions undertaken in the financial year.</li> </ul>
Financial Statements	<ul style="list-style-type: none"> <li>The draft Financial Statements and supporting work papers were presented for audit on the 25 May 2011 and were of a high standard. This means that no audit adjustments were required to be made to the draft accounts.</li> </ul>
<b>Governance and performance</b>	
Commission for Ethical Standards in Public Life in Scotland	<ul style="list-style-type: none"> <li>The merger of OCPAS with the offices of the Chief Investigating Officer and the Scottish Parliamentary Standards Commissioner (CIO/SPSC) was completed on 1<sup>st</sup> April 2011. A joint Business Plan for 2011-12 has been agreed and work is underway on the Strategic Plan for 2012-16.</li> <li>OCPAS absorbed merger costs within its budget for 2010-11, and reported an underspend of £2k. This was possible due to the management of a staff vacancy and the move to less expensive accommodation during the year.</li> </ul>
Revised Code of Practice	<ul style="list-style-type: none"> <li>The Commissioner's Revised Code of Practice signals a move to a more proportionate and risk-based response to the regulation of appointments to public bodies, and should mean that the Public Appointments Commissioner is well-placed to continue to fulfil her role with reduced financial resources.</li> </ul>
Public Services Reform Act	<ul style="list-style-type: none"> <li>OCPAS has put appropriate arrangements in place to comply with the reporting requirements of the Public Services Reform (Scotland) Act 2010.</li> </ul>

## 2 Financial Statements

### Expenditure during the year

	2011 £k	2010 £k
Cash budget for the year	400	423
Cash expenditure	(383)	(408)
	17	15
Merger costs	(15)	-
<b>Underspend</b>	<b>£2k</b>	<b>£15k</b>

### Analysis of Expenditure



### Financial Performance

The Commissioner receives cash funding from the Scottish Parliamentary Corporate Body (SPCB) for her offices annual budget. Expenditure during the year was £2k lower than the cash budget of £400,000. As the office incurred merger costs of around £15k, which were not included in the budget, OCPAS actually made savings of around £17k during the year. These savings were achieved through efficiencies on procurement and the relocation of the office premises to less expensive accommodation.

Staff costs are the main area of OCPAS's expenditure and accounted for 50% of the total costs during the year. In 2009/10 the Development Manager left OCPAS and in light of budget pressures has not been replaced by a full time member of staff, instead a temporary staff member fulfils this role on a part time basis. The Commissioner also increased her working hours in order to fully prepare for the merger with the Chief Investigating Officer (CIO) and Scottish Parliamentary Standards Commissioner (SPSC).

### Commission for Ethical Standards in Public Life in Scotland

OCPAS and the CIO/SPSC merged on 1 April 2011 to become the Commission for Ethical Standards. In preparation for this merger OCPAS incurred expenditure in relation to the office relocation, website design, and legal advice totalling £15k.

### OCPAS Assessor Fees

As part of our 2009-10 audit, we noted that the average cost of assessor fees per appointment round had risen by around £1k to £2.9k. A focus for the Business Manager in 2010-11 was therefore to bring these costs down and we reviewed this area again as part of our 2010-11 audit. We found that total assessor fees had increased by around £5k to £98k during the year - largely because the number of appointment rounds increased from 32 to 41. The average cost per appointment round has, therefore, been reduced to around £2.3k. OCPAS will continue to monitor assessor fees in 2011-12 in order to reduce costs where possible.

## 3 Key audit issues

### 3.1 Matters identified at the planning stage

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 stages are detailed below

### 3.2 Accounting system and internal control

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

### 3.4 Matters identified at the planning stage

During our 2010-11 audit we observed the controls in place over the creditors cycles and found no issues with regards to internal control.

### 3.3 Audit Adjustments

We identified no audit adjustments during the course of the audit, reflecting the high quality of accounts and working papers supplied by the Commissioner

	Issue	Auditor response [and conclusion]
1	<p><b>Commissioner for Ethical Standards in Public Life in Scotland</b> The Commissioner's Office will be merged with that of the Chief Investigating Officer and Scottish Parliamentary Standards Commissioner in April 2011, to become the Commission for Ethical Standards in Public Life in Scotland.</p> <p>The Commissioner must ensure that a joint business plan is in place as quickly as possible to ensure that her strategic objectives continue to be achieved in the period following the merger.</p>	<p>The merger between the Commissioner and the CIO/SPSC has gone extremely well with the Commissioner taking the necessary steps to ensure that the merger was a success. At our review OCPAS and the CIO/SPSC were now operating from the same location, all financials and employee contracts were in place, and a Business Plan for 2011-12 had been developed. OCPAS not only completed the merger within the agreed timescale but also under budget.</p> <p><b>Management response:</b> A significant amount of work was completed prior to the merger but a number of tasks remain, primarily around our risk management strategy, records management and day to day operating procedures. These have been captured for action in 2011-12.</p>

	<b>Issue</b>	<b>Auditor response [and conclusion]</b>
2	<p><b>Financial Position</b></p> <p>The economic recession has resulted in significant cuts in public sector funding. The Commissioner is required to make spending cuts in line with the Scottish Parliamentary Corporate Body's budget submission. Overall, this will result in a 12% saving over the next four financial years. In 2011-12, the Commission will be required to deliver savings of 4.1%, compared to the budgets held by predecessor bodies. This represents a significant challenge during a period of merger.</p>	<p>OCPAS was able to achieve savings during 2010-11 by managing a staff vacancy, and by moving into less expensive accommodation in January 2011. The Commissioner is considering options for future savings beyond her term in office.</p> <p><b>Management response:</b> Given that savings in staff numbers and accommodation have already been made, achieving further reductions will be challenging. The Commission will consider other options for reducing our budget including reviewing the impact of the revised Code of Practice and the implications of not appointing a new Public Appointments Commissioner.</p>
3	<p><b>Public Service Reform (Scotland) Act 2010</b></p> <p>Section 31 of the Act imposes new duties on the Scottish Government and listed public bodies to publish information on expenditure and on certain other matters as soon as is reasonably practicable after the end of each financial year. These sections came into force on 1 October 2010.</p> <p>Disclosure is required to cover the period from 1 October 2010 to 31 March 2011, but where information is readily available, then as a matter of good practice, the information for the whole financial year should be published. The one exception to this is that disclosure on number of individuals earning in excess of £150,000 per year is required for the whole year.</p> <p>Disclosures are required in respect of:</p> <ul style="list-style-type: none"> <li>total expenditure incurred on public relations, overseas travel, hospitality and entertainment, and external consultancy</li> <li>payments made during the period with a value in excess of £25,000</li> <li>statement specifying the number of individuals who received remuneration in excess of £150,000 in the financial year</li> <li>a statement of the steps taken during the financial year to promote and increase sustainable growth through the exercise of its functions</li> <li>a statement of the steps taken during the financial year to improve efficiency, effectiveness and economy in the exercise of its functions.</li> </ul>	<p>OCPAS has put adequate steps in place in order to report under the Public Services Reform (Scotland) Act 2010.</p> <p><b>Management response:</b> This data will be published by 30 June 2011.</p>

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	<b>Issue</b>	<b>Auditor response [and conclusion]</b>
	It is not necessary to include these disclosures in the annual accounts. Publication on the body's website would be sufficient but it is up to the individual body to decide on the most appropriate method.	



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## 4 Best Value and Performance

### 4.1 Introduction

All Accountable Officers are required to demonstrate economy, efficiency and effectiveness and the achievement of Best Value in the use of resources. The Commissioner has faced additional pressures during 2010-11, as the organisation prepared for the merger in April 2011. The new Commission's budget for 2011-12 represents a reduction of 4.1% on the budget of the predecessor bodies.

### 4.2 Strategic focus

During 2010-11, the Commissioner's Office began preparations for operating with reduced resources. A revised Code of Practice was published in April 2011 which signals a move to a more risk-based and proportionate approach to future appointment rounds. We had noted in prior years that the average cost of each appointment round was increasing as OCPAS had identified deficiencies in central recruitment procedures. A risk assessment has been undertaken on each of the regulated public bodies in Scotland to assess the level of Assessor involvement in recruitment rounds. This approach helps to ensure that Assessor resources are directed as effectively as possible at the areas of higher risk.

### 5.3 Governance arrangements for the CES

The Commission published its Business Plan for 2011-12 in May 2011. The Business Plan outlines joint strategic objectives and operating principles, although the business objectives remain focused on the role of each predecessor body. Arrangements are now in progress to develop a Strategic Plan for the term 2012-2016. The current Commissioner's term of office will end in May 2012 and she will not, therefore, have any role in delivering the Plan. The organisation's strength in consultation and stakeholder engagement will therefore be critical to preparing a Strategic Plan that meets the needs of a future Commissioner.

The Commission for Ethical Standards will adopt OCPAS's performance management system. This provides a streamlined approach to monitoring objectives and key performance indicators within the Business Plan, and will ensure that the organisation is able to demonstrate that it is achieving Best Value.

## 5 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 31 March 2011.

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.

The contents of this memorandum should not be disclosed to third parties without our prior written consent.

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

The Accountable Officer 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 Accountable Officer 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.

### Independence and robustness

To maintain our independence as auditors we ensure that Grant Thornton, its partners and the audit team have no family, financial, employment, investment or business relationship with OCPAS. Our fees paid by OCPAS do not represent an inappropriate proportion of total fee income for either the firm, office or individual partner.

At all times during the audit, we will maintain a robustly independent position in respect of key judgement areas.

### Audit and non-audit services

We have not supplied any non-audit services to OCPAS in the year 2010-11.

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

	£
Audit	7,200

#### 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
- significant findings from the audit