

# Commission for Ethical Standards in Public Life in Scotland

## Annual report on the 2011/12 audit



Prepared for Commission for Ethical Standards in Public Life in Scotland and the Auditor General  
for Scotland

November 2012

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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# Key messages

## 2011/12

The financial challenges facing the Scottish public sector are well documented, with public bodies facing deep and prolonged cuts in funding. In 2011/12 we assessed the key strategic and financial risks being faced by the Commission for Ethical Standards in Public Life in Scotland (the Commission).

The Scottish Parliamentary Commissions and Commissioners etc. Act 2010 established the Commission, which was formed by the merger of the offices of the Scottish Parliamentary Standards Commissioner, the Chief Investigating Officer and the Commissioner for Public Appointments in Scotland. The Commission supports the work of two Commissioners, the Public Standards Commissioner for Scotland and the Public Appointments Commissioner for Scotland.

The new Commission was established on 1 April 2011 and systems and operations were all merged during the financial year 2011/12.

We audited the financial statements and we also reviewed the use of resources and aspects of performance management and governance. This report sets out our key findings.

## Financial statements

We have given an unqualified audit opinion on the financial statements for 2011/12. We have also concluded that in all material respects, the expenditure and income shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance, issued by Scottish Ministers.

## Financial position and use of resources

The Commission recorded an underspend of £45,000 in cash terms for 2011/12. Expenditure on administrative activities for 2011/12 totalled £807,000; £567,000 was spent on staff costs and £240,000 on other administrative costs.

## Governance and accountability

In 2011/12 the Commission had effective corporate governance structures in place. We examined the organisation's key financial systems underpinning the organisation's control environment and concluded that they operated sufficiently well for us to place reliance on them, although we highlighted some areas for improvement.

## Outlook

The Commission is still developing as an organisation and is continuing to plan and prepare for subsequent statutory restructuring in respect of the Commission for Ethical Standards in Public Life in Scotland. It is expected that that the changes will bring about further

improvements to the ethical standards service, with increased efficiency and effectiveness and greater economy.

# Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of the Commission. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
2. A number of reports have been issued in the course of the year in which we make recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of the Commission.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the Commission understands its risks and has arrangements in place to manage these risks. The Accountable Officer should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to the Commission and the Auditor General and should form a key part of discussions with the Audit Advisory Board, as soon as possible after the formal completion of the audit of the financial statements. Reports should be made available to stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website after consideration by the Audit Advisory Board.
6. The management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

# Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. We are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
  - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
  - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
  - the regularity of the expenditure and income.
9. We review and report on, as appropriate, other information published with the financial statements, including the management commentary, governance statement and the remuneration report. This section summarises the results of our audit on the financial statements.

## Audit opinions

10. We have given an unqualified opinion that the financial statements of the Commission for 2011/12 give a true and fair view of the state of the body's affairs and its net operating cost for the year.
11. The Commission is required to follow the 2011/12 Government Financial Reporting Manual (the FReM) and we confirmed that the financial statements have been properly prepared in accordance with the FReM. We also confirmed that relevant parts of the remuneration report had been properly prepared and that information given in the management commentary was consistent with the financial statements.
12. We also reviewed the governance statement and concluded that it complied with Scottish Government guidance.

## Regularity

13. We confirmed that the expenditure and income in the financial statements was in accordance with applicable legislation and Ministerial guidance, (the Scottish Parliamentary Commissions and Commissioners etc. Act 2010).

## Accounting issues

### Accounts submission

14. The financial statements were submitted for audit on 6th June, within a pre-agreed timetable and audit fieldwork was completed on 30th July. Matters arising were discussed on a regular

basis with the Business Manager. The final clearance meeting was held on 30th July, with our ISA 260 report and the draft financial statements being presented to the Audit Advisory Board (AAB) on 2nd August. The revised financial statements were signed by the Accountable Officer on the 24th August 2012. The annual report and accounts were laid before Parliament on the 9th October 2012.

15. The Commission made a number of changes to the first draft of accounts in response to comments from audit. This was a challenging time for the Commission as there were a number of merger accounting issues to consider in addition to the new requirement to replace the statement of internal control with a governance statement.

### Merger accounting and prior year adjustments

16. The FReM requires that merger accounting is to be applied when there is a combination of 2 or more public sector bodies. This involves aligning accounting policies, combining the results for the whole financial year, and adjusting prior year comparatives.
17. We were satisfied that the financial statements were prepared in line with merger accounting principles as set out in the FReM and IFRS 3 Business combinations.

### Outlook

18. There are no significant changes to the 2012/13 FReM that are expected to have an impact on the Commission's annual financial statements.



# Financial position

19. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
20. We consider whether audited bodies have established adequate arrangements and examine:
  - financial performance in the period under audit
  - compliance with any statutory financial requirements and financial targets
  - ability to meet known or contingent, statutory and other financial obligations
  - responses to developments which may have an impact on the financial position
  - financial plans for future periods.
21. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

## Financial results

### Annual outturn

22. The Commission recorded an underspend of £45,000 in cash terms for 2011/12. The £45,000 underspend comprises two elements:
  - demand for the services of Public Appointments Assessors (PAAs) fell, resulting in a £22,000 underspend. PAAs are involved in an average 68 rounds each year. During the year, this fell by one-third to 45. The Commission intends to closely monitor activity in 2012/13 to identify whether activity has permanently reduced or has merely been delayed
  - the Commission actively pursued cost reductions in a number of areas including PAA contracts and staff training.
23. During 2011/12 the Commission drew down £822,000 of the £852,000 cash budget awarded by the Scottish Parliament. Expenditure on administrative activities for 2011/12 totalled £807,000; £567,000 was spent on staff costs and £240,000 on other administrative costs. At the 31st March 2012, the Commission had an unused cash balance of £15,000.

### Financial memorandum with the Scottish Parliamentary Corporate Body

24. During our audit, there was no financial memorandum in place governing the relationship between the Commission and the Scottish Parliamentary Corporate Body (SPCB). As a result, we were unable to confirm how the £15,000 unused cash drawdown would be processed, and if there was any related error in the financial statements.
25. However, any error would not be material and did not therefore impact on our audit opinions.
26. Since completing the audit, the Commission has agreed with SPCB to reduce the cash drawdown of the 2012/13 budget by £15,000.

27. SPCB issued a draft framework document in September 2012 and the Commission provided comments in September 2012. A further draft is to be provided to the Commission.

### Budgetary Control

28. Performance against budget is reviewed and reported internally to the Commission on a monthly basis. All reports we reviewed during the audit were detailed and highlighted spend areas which required to be closely monitored.
29. Key issues are discussed with the Commissioner as they arise, allowing any financial concerns to be identified and resolved promptly.

### Financial position

30. The Statement of Financial Position shows a net assets position of £35,000 at 31st March 2012, mostly represented by a surplus of current assets over current liabilities.
31. It is standard practice to include prior year figures in year end accounts for comparative purposes. However, due to the differing formal and informal accounting practices adopted by the three bodies merging, it was not possible for the Commission to identify prior year balances at 31st March 2011.

## Outlook

### 2012/13 budget

32. The economic recession has resulted in significant cuts in public sector funding. The Commission is required to make spending cuts of 15-20% in real terms over the 3 year period using 2010/11 as the base year, in line with the SPCB's budget submission.
33. In 2011/12, the Commission achieved savings of 5.3% against a budget of £852,000 leaving further savings of 10-15% to be made over the next 2 years. The budget awarded for 2012/13 is £798,000 which represents a decrease of 6.3% from the 2011/12 budget.
34. The Commission appears to be well placed to ensure expenditure remains in line with the budget as it has a budgeting framework in place which is appropriate and supports the structure and operations of the organisation particularly in light of the current economic climate.

# Governance and accountability

35. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
36. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
37. Consistent with the wider scope of public audit, we have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
  - corporate governance and systems of internal control
  - the prevention and detection of fraud and irregularity
  - standards of conduct and arrangements for the prevention and detection of corruption.
38. In this part of the report we comment on key areas of governance.

## Corporate governance

### Overall effectiveness

39. We found that overall, corporate governance arrangements operated effectively during 2011/12, although there is scope to make improvements in some areas as outlined below.
40. We attended meetings of the AAB during the year. We observed that the AAB operates well and makes an effective contribution to the organisation's overall governance.

### Change of Accountable Officer

41. The Scottish Parliamentary Commissions and Commissioners etc. Act 2010 established the Commission, which was formed by the merger of the offices of the Scottish Parliamentary Standards Commissioner, the Chief Investigating Officer and the Commissioner for Public Appointments in Scotland. The Commission supports the work of two Commissioners, the Public Standards Commissioner for Scotland and the Public Appointments Commissioner for Scotland.
42. The term of office of the Public Appointments Commissioner who was the Accountable Officer during the financial year 2011/12 came to an end on 31 May 2012. The Public Standards Commissioner for Scotland was appointed as the Accountable Officer from 1 April 2012.

## Risk Management

43. Risk management is a central part of sound governance and good management. Good risk management should provide increased confidence in the Commission's ability to:
  - achieve its objectives
  - exercise control over the threats facing the day to day activities, and
  - enable better take up of any opportunities available to it as an organisation.
44. The Commission recently finalised a risk management policy setting out the risk management framework for the organisation.
45. Following the merger, the Commission adopted the risk register which was formally in place in the Office of the Commissioner for Public Appointments in Scotland and the intention is to implement a new risk register during 2012/13.

**Refer Action Plan No. 1**

## Internal control

46. While we concentrate on significant systems and key controls in support of the opinion on the financial statements, our wider responsibilities require us to consider the financial systems and controls of audited bodies as a whole. The extent of this work is informed by our assessment of risk and the activities of internal audit.
47. Overall the systems of internal control were operating effectively during 2011/12. This enabled us to take the planned assurance on these systems for the audit of the financial statements. We also identified a number of control weaknesses or where improvements could be made to existing arrangements and these weaknesses along with agreed actions were detailed in our controls report in July 2012.

## Prevention and detection of fraud and irregularities

48. The Commission is responsible for establishing arrangements to prevent and detect fraud and other irregularity. We review and report on these arrangements.
49. The Commission has an anti-fraud policy in place which outlines staff responsibilities in relation to prevention and detection of fraud.
50. In April 2012 the Commission completed a fraud response plan which sets out how to report suspicions, and how any investigations will be conducted and concluded.
51. We will review the fraud response plan, and communication of the plan as part of our 2012/13 audit work.

## Standards of conduct and arrangements for the prevention/detection of bribery and corruption

52. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. We consider whether bodies have adequate arrangements in place.
53. We found that there were procedures in place to help ensure appropriate standards of conduct and to help prevent and detect bribery and corruption.

## Outlook

54. The current environment of significant organisational change, reducing resources and increasing expectations is one in which the organisation's governance and accountability arrangements will be tested.
55. The Commission invested a significant amount of time and resource during 2011/12 to ensure processes, procedures, and underlying systems were developed to ensure effective governance arrangements were in place and operating effectively.
56. During 2012/13 the Commission intends to put in place methods to regularly assess those systems and procedures against the 6 principles and best practice outlined in the Good Governance Standard for Public services.

# National Performance Audit Reports

57. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Reports in the last year which will be of direct interest are:
- Learning the lessons of public body mergers
  - Scotland's Public Finances - addressing the challenges
58. Where appropriate, impact returns are produced for national performance audit reports, 6 to 12 months after publication. These summarise how individual public bodies have responded to the national report. The returns contribute to Audit Scotland's monitoring of the impact of its performance audit reports and may help to identify areas where further follow-up work is required

## Outlook

59. In April 2011, the Equality Act 2010 introduced a new public sector 'General Duty' which encourages equality to be mainstreamed into public bodies' core work so that it is not a marginal activity but part and parcel of how public bodies operate. Following on from this the Scottish Government consulted on a set of 'Specific Duties' which came into force in May 2012. There are nine specific duties listed which aim to support public bodies to better perform against the 'General Duty,' including the duty to assess the impact of equalities in all policies and decisions as well as the requirement to publish a set of equality outcomes (and reporting requirements) no later than 30 April 2013.

# Appendix A: audit reports

## External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue	Date presented to Audit and Risk Committee
Annual Audit Plan	2 April 2012	2 August 2012
Key financial controls assurance report	17 July 2012	2 August 2012
Report on financial statements to those charged with governance	2 August 2012	2 August 2012
Audit opinion on the 2011/12 financial statements	2 August 2012	2 August 2012

# Appendix B: action plan

## Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1.	44	<p><b>Risk Register</b></p> <p>Following the merger, the Commission adopted the risk register formally in place in OCPAS.</p> <p><b><i>Risk: There is a risk that the register is not fit for purpose and does not reflect good practice.</i></b></p>	<p>Agreed.</p> <p>Preparing and implementing a risk register which is fit for purpose is a key action for 2012-13.</p>	Business Manager	January 2013