

# Scottish Public Services Ombudsman

## Annual report on the 2011/12 audit



Prepared for Scottish Public Services Ombudsman and the Auditor General for Scotland  
December 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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# Contents

<b>Key messages</b> .....	<b>4</b>
2011/12 .....	4
<b>Introduction</b> .....	<b>6</b>
<b>Financial statements</b> .....	<b>7</b>
Audit opinions .....	7
Accounting issues .....	7
Outlook .....	8
<b>Financial position</b> .....	<b>9</b>
Financial results .....	9
Outlook .....	9
<b>Governance and accountability</b> .....	<b>11</b>
Corporate governance .....	11
Prevention and detection of fraud and irregularities .....	13
Standards of conduct and arrangements for the prevention/ detection of bribery and corruption .....	13
Outlook .....	13
<b>National Performance Audit Reports</b> .....	<b>14</b>
Outlook .....	14
<b>Appendix A: audit reports</b> .....	<b>15</b>
<b>Appendix B: action plan</b> .....	<b>16</b>

# 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 Scottish Public Services Ombudsman (the SPSO).

The SPSO deal with complaints about councils, the National Health Service, housing associations, most water and sewerage providers, the Scottish Government and its agencies and departments, colleges and universities, and prisons. During 2010/11, the SPSO set up a Complaints Standards Authority, in addition to absorbing Waterwatch, and the water complaints service.

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 Scottish Parliament awarded the SPSO a budget of £3,337,000 for the financial year 2011/12. During the year, the SPSO drew down £3,306,000, which was £31,000 less than the budget.

Expenditure on operating activities for 2011/12 totalled £3,542,000; £2,621,000 was spent on staff costs and £821,000 on other administrative costs. A further £128,000 was spent on non current asset purchases, in relation to the upgrade of the IT network to a more secure system.

The Statement of Financial Position shows a net assets position of £389,000 at 31st March 2012 (£525,000 at 31st March 2011), mostly represented by a surplus of non-current assets over current liabilities.

### Governance and accountability

In 2011/12 the SPSO 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.

During the year the SPSO updated its risk management policy and fully revised the risk register to ensure it complied with best practice. We found that risk assessment is fully

embedded into the corporate and performance management, business planning and financial reporting processes of the organisation.

## Outlook

Over the three year period between 2010/11 and 2013/14 the SPSO is committed to achieving as a minimum a 15% real terms decrease in its budget. The current environment of reducing resources and increasing expectations is one in which the organisation's governance and accountability arrangements will be tested. Sound financial planning and monitoring arrangements will be key to delivering balanced budgets.

# Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of the SPSO. 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 SPSO.
3. Appendix B is an action plan setting out the high level risk 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 SPSO understands its risks and has arrangements in place to manage these risks. Scotland's Public Services Ombudsman (Scotland's Ombudsman), as the Accountable Officer, should ensure that he is satisfied with the proposed management action and has a mechanism in place to assess progress.
4. This report is addressed to Scotland's Ombudsman and the Auditor General and should form a key part of discussions with the Audit and Risk Committee, 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 and Risk Committee.
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 SPSO 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 SPSO 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 2nd July, in line with a pre-agreed timetable and audit fieldwork was completed on 26th September. Matters arising were

discussed on a regular basis with the Human Resource and Finance Officer and also with the Director. Our ISA 260 report was circulated to members of the Audit Advisory Board on 26th September, and revised financial statements were signed by the Accountable Officer on the 28th September 2012.

15. The audit was not completed within the agreed timescale during this first year of our audit appointment.
16. For 2012/13, we have agreed to provide a clearer timetable, in advance of the audit, and the SPSO has agreed to provide information in line with the timetable. We will also provide a timely summary of significant changes in reporting requirements and accounting standards. This should enable both parties to meet the 2012/13 timetable.

## Outlook

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



# Financial position

18. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
19. 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.
20. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

## Financial results

### Annual outturn

21. The Scottish Parliament awarded the SPSO a budget of £3,337,000 for the financial year 2011/12. During the year, the SPSO drew down £3,306,000, which was £31,000 less than the budget.
22. Expenditure on operating activities for 2011/12 totalled £3,542,000; £2,621,000 was spent on staff costs and £821,000 on other administrative costs. A further £128,000 was spent on non current asset purchases, in relation to the upgrade of the IT network to a more secure system.

### Financial position

23. At the 31st March 2012, the SPSO had a cash and cash equivalents balance of £63,000, which was £141,000 less than at 31st March 2011.
24. The Statement of Financial Position shows a net assets position of £389,000 at 31st March 2012, mostly represented by a surplus of non-current assets over current liabilities.

## Outlook

### 2012/13 budget

25. The economic recession has resulted in significant cuts in public sector funding. The SPSO is required to make spending cuts of 15-20% over the 3 year period using 2010/11 as the base year, in line with the SPCB's budget submission.

26. Over the three year period between 2010/11 and 2013/14 the SPSO is committed to achieving as a minimum a 15% real terms decrease in its budget.

**Refer Action Plan No. 1**

27. The 2011/12 budget represented a 6.5% saving on the 2010/11 baseline budget, largely achieved through a restructuring of the organisation. The budget requirement for the year 2012/13, as stated in cash terms, is £3.29million, a 7% decrease on the refreshed 2011/12 baseline budget. The indicative figures for 2013/14, which have been provided to the SPCB as part of the 2012/13 budget process, show a further planned reduction of 2.6%.
28. The SPSO faces significant challenges in the current environment, with continued reducing resources and increasing responsibilities and expectations.
29. We will monitor progress in achieving the intended savings as part of our annual audit on an ongoing basis.

# Governance and accountability

30. 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.
31. 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.
32. 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.
33. In this part of the report we comment on key areas of governance.

## Corporate governance

### Overall effectiveness

34. 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.
35. We attended a number of audit and risk committee meetings during 2011/12. We observed that the audit and risk committee operates well and makes an effective contribution to the organisation's overall governance.

### Internal control

36. 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.
37. Overall the systems of internal control were operating effectively during 2011/12. No material weaknesses in the financial accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the accounts

38. We identified a few low risk control weakness during the audit and these along with agreed actions were detailed in our controls report in September 2012.

### Internal audit

39. Audit Scotland's Code of Audit Practice (the "Code") sets out the wider dimension of public sector audit. The code requires external auditors to undertake an annual assessment of the adequacy of the internal audit function. Based on this assessment we outline areas where we plan to place formal reliance on areas of internal audit work in terms of International Standard on Auditing 610 (Considering the Work of Internal Audit).
40. We concluded our assessment of the internal audit function which is provided by the Scottish Legal Aid Board's (SLAB) Internal Audit Unit in March 2012. The assessment included a review of the range and quality of work carried out by internal audit.
41. Our overall conclusion is that the Internal Audit Function (IAF) provided by SLAB complies with Government Internal Audit Standards (GIAS) in adopting a risk based audit approach in planning and undertaking their work. As a result we are able to place reliance on the work of the IAF for the purposes of our audit.
42. Our audit identified some significant areas for improvement and these areas were detailed in our letter to the SPSO dated 30 March 2012. Whilst we found the overall quality of the internal audit work to be good, we recommended a strengthening of the monitoring progress and reporting against the yearly action plan.
43. We are satisfied that the Internal Audit Manager now has procedures in place to address the areas of improvement and we will monitor compliance with procedures on an ongoing basis as part of our annual audit work.

### Risk Management

44. Risk management is a central part of sound governance and good management. Good risk management should provide increased confidence in the SPSO's ability to:
- achieve it's objectives
  - exercise control over the threats facing the day to day activities
  - enable better take up of any opportunities available to it as an organisation.
45. During 2011/12, we found that risk assessment is fully embedded into the corporate and performance management, business planning and financial reporting processes of the organisation. The risk management process within the SPSO complies with best practice and is effective in ensuring that organisational risks and audit issues are identified, regularly reviewed and managed in order to achieve business plan objectives.
46. In July 2011 the SPSO updated the risk management policy which sets out the risk management framework for the organisation and the risk register was fully revised at the beginning of the financial year to comply with best practice.

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47. The full register is reviewed in detail by the audit and risk committee at two meetings a year with an exceptions report prepared and considered for the remaining meetings.

## **Prevention and detection of fraud and irregularities**

48. The SPSO is responsible for establishing arrangements to prevent and detect fraud and other irregularity. We review and report on these arrangements.
49. We found that the SPSO has an anti-fraud policy in place which outlines staff responsibilities in relation to prevention and detection of fraud. It also details investigative procedures in the event of a whistleblowing disclosure.
50. There is no history of fraud or irregularity within the SPSO and staff we met with were familiar with the anti-fraud policy.

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

51. 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.
52. 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**

53. The current environment of reducing resources and increasing expectations is one in which the organisation's governance and accountability arrangements will be tested.
54. During 2012/13 the SPSO should ensure it continues to assess the effectiveness of governance and accountability arrangements against best practice.

# National Performance Audit Reports

55. 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:
  - Scotland's Public Finances - addressing the challenges.
56. The report outlines some of the key risks and issues that public bodies need to consider and manage. Many of these risks are not new to the public sector but the likelihood of their occurrence has increased as public bodies seek to implement changes.

## Outlook

57. 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.
58. Although not listed in the Schedule for specific duties, the SPSO have built in equalities objectives.

# 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	21 February 2012	25 May 2012
Overview of the adequacy of internal audit	30 March 2012	25 May 2012
Report on review of the risk register	30 April 2012	25 May 2012
Key financial controls assurance report	6 September 2012	26 September 2012
Report on financial statements to those charged with governance	26 September 2012	26 September 2012
Audit opinion on the 2011/12 financial statements	26 September 2012	26 September 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	26	<p><b>Budget reductions</b></p> <p>Over the three year period between 2010/11 and 2013/14 the SPSO is committed to achieving as a minimum a 15% real terms decrease in its budget.</p> <p><b><i>Risk. There is a risk that the SPSO may not be able to achieve committed budget savings as a result of increasing responsibilities and expectations.</i></b></p>	<p>The SPSO's 13-14 budget has been submitted to the SPCB on the basis of the required planned underspend to achieve a 15% reduction over the three year period to 2013-14. Going forwards, and given the continued rise in complaint numbers, the SPSO have planned for a further three years of zero based budgeting. To support this, the SPSO have recently undertaken a business process review (September - November 2012) and have identified an action plan to continue to manage increasing complaint volumes from current areas of jurisdiction within existing resourcing for implementation by April 2013. Resourcing for any proposed new areas of jurisdiction continue to be highlighted with the relevant public bodies on a timely basis.</p>	Accountable Officer	March 2014