



Commissioner for Ethical Standards in Public Life in Scotland

Annual audit report 2014/15

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

June 2015

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This report has been prepared for the use of the Commissioner for Ethical Standards in Public Life in Scotland and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the audit committee and the financial statements have been laid before parliament. The information in this report may be used by Audit Scotland in any reporting to the Scottish Parliament.

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Key Messages

Audit of financial statements	<ul style="list-style-type: none">• Unqualified independent auditor's report (audit certificate) on the 2014/15 financial statements.• Working papers were of a good standard and officers provided good support which enabled the audit team to complete on-site fieldwork by the planned target date.• All presentation and disclosure issues, identified in unaudited accounts, corrected by management in audited financial statements.
Financial management and sustainability	<ul style="list-style-type: none">• The accounts are prepared on an accruals basis. On an accruals basis, with a budget of £785,000 and spend of £781,000, there was an underspend of £4,000.• Management also closely monitor financial performance on a cash basis. During the year £793,000 was drawn down and £787,000 paid out, resulting in a cash surplus of £6,000.
Governance and transparency	<ul style="list-style-type: none">• The Commissioner had sound governance arrangements in place during 2014/15.
Outlook	<ul style="list-style-type: none">• The Commissioner has identified a number of developments for 2015/16 including: developing or procuring an improved complaints handling system; evaluating the working of Codes of Conduct and providing briefings thereon; and scrutinising appointment activity with a view to fostering continuous improvement.

Introduction

1. This is a report of our findings from the 2014/15 audit of the Commissioner for Ethical Standards in Public Life in Scotland (the Commissioner).
2. The Commissioner, as the Accountable Officer, is responsible for:
 - preparing financial statements which give a true and fair view, in accordance with the relevant financial reporting framework
 - ensuring the regularity of transactions, by putting in place systems of internal control
 - maintaining proper accounting records
 - preparing and publishing with their financial statements an annual governance statement and a remuneration report.
3. Our responsibility, as the external auditor of the Commissioner, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management with the oversight of those charged with governance. This does not relieve management of their responsibility for the preparation of financial statements.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports are summarised at appendices 2 and 3.
6. Appendix 4 is an action plan setting out our recommendations to address 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 "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that the Commissioner understands the risks and has arrangements in place to manage these risks. The Audit Advisory Board should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures. Consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Audit of the 2014/15 financial statements

Audit opinions

Financial Statements

- The financial statements of the Commissioner for 2014/15 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.
- We confirm that the financial statements have been properly prepared in accordance with the 2014/15 FReM and the requirements of the Scottish Parliamentary Commissions and Commissioners etc Act 2010 and directions.

Regularity

- In all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.

Other prescribed matters

- The remuneration report to be audited has been properly prepared in accordance with the requirements of the Scottish Parliamentary Commissions and Commissioners etc Act 2010 and directions.
- The information in the strategic report and commissioner's report is consistent with the financial statements.

Submission of financial statements for audit

9. We received the unaudited financial statements in accordance with the agreed timetable. The working papers were of a good standard, the staff provided good support to the audit team and we completed our on-site fieldwork on 5 June 2015.

Overview of the scope of the audit of the financial statements

10. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan, dated February 2015.
11. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was £11,615 and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
12. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance.

13. Appendix 1 sets out the audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.
14. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

15. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. In addition, a misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example the failure to achieve a statutory requirement, or an item contrary to law).
16. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit procedures. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
17. We summarised our approach to materiality in our plan. We set materiality for 2014/15 at £7,800.

Audit of the 2014/15 financial statements

18. We also set a lower level, known as performance materiality, when defining our audit procedures. This level depends on professional judgement and is informed by a number of factors including:

- extent of estimation and judgement within the financial statements
- nature and extent of prior year misstatements
- extent of audit testing coverage.

19. Performance materiality was set at £5,400 (i.e. 70% of materiality). We report all misstatements greater than £1,000.

Evaluation of misstatements

20. No misstatements were identified during the audit.

Significant findings from the audit

21. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit:

- The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and disclosures
- Significant difficulties encountered during the audit
- Significant matters arising from the audit that were discussed, or subject to correspondence with management
- Written representations requested by the auditor
- Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

22. A number of minor presentational and disclosure issues were identified during the course of the audit. In our view, there are no significant findings, as described in paragraph 21 above, to be communicated to you in accordance with ISA 260.

Future accounting and auditing developments

Revisions to the Financial Reporting Manual (FReM)

23. The financial statements are prepared in accordance with the Government financial reporting manual (FReM). Two significant revisions will apply from 2015/16:
- Simplification and Streamlining Project – changes to the form and content of the annual report and accounts.
 - Adoption of IFRS13 *Fair value measurement* for the first time – this also includes IAS 16 and IAS 38 adaptations.
24. **Restructuring of the annual report:** the 2015/16 FReM has been extensively re-written to require the annual report and accounts to include:
- A performance report which will give a fair, balanced and understandable analysis of performance and will include an overview section and a performance analysis section.
 - An accountability report incorporating the following three main sections:
 - corporate governance report consisting of a directors' report, a statement of the Accountable Officer's responsibilities and a governance statement

- remuneration and staff report which will cover a number of prescribed disclosures including remuneration policy, payments to directors, staff numbers and sickness absence rates
- parliamentary and accountability report which will include information on the regularity of expenditure and the independent auditor's report.

Appendix 4 – Action Plan No. 1

25. **International Financial Reporting Standards (IFRS) 13 Fair value measurement:** sets out the requirements for assets to be valued at fair value and is applied in full by the FReM only to assets that are not held for their service potential (i.e. investment properties and assets held for sale). It also applies to operational assets which are surplus to requirements where there are no restrictions on disposal which would prevent access to the market.
26. IFRS 13 does not apply to operational assets which are in use delivering front line services or back office functions, and surplus assets with restrictions on their disposal. These will be valued in accordance with the adaptations to *IAS (International Accounting Standard) 16 property, plant and equipment*.
27. As the Commissioner does not hold any assets of this nature this will not impact upon their 2015/16 financial statements.

Financial management and sustainability

28. The arrangements for budget setting and monitoring in place are sound, with management exercising close control over expenditure and financial results reported on a monthly basis to the management team.

2014/15 financial position

29. As shown in the table below, the Commissioner’s budget for 2014/15 was initially set at £785,000, representing a 1.5% reduction on the 2013/14 budget of £797,000.

Funding 2014/15	Allocation (£000)	Expended (£000)
Initial allocation	785	781
Additional allocation	0	0
Total	785	781

30. The main financial objective of the Commissioner is to ensure that the financial outturn for the year is within the resource budget allocated by Scottish Ministers.

31. During the year the Commissioner submitted an additional funding request to the Scottish Parliament to cover the costs

associated with the office relocation and increased complaint activity. The Scottish Parliament awarded a further £48,800 as contingency funding. However this was not required as complaint activity did not continue as projected, relocation costs were reduced and significant cost savings in public appointment activity were achieved.

32. Overall expenditure decreased by 3.3% from £808,000 in 2013/14 to £781,000 in 2014/15. Staff costs accounted for the majority (around 72%) of the Commissioner’s expenditure in both years.

33. On a cash basis the Commission's outturn was £787,000, representing an underspend of £6,000 against the £793,000 drawn down from the Scottish Parliamentary Corporate Body.

34. The level of activity undertaken by the office of the Commissioner has varied during the year, and in comparison with the previous year:

Financial management and sustainability

Type of activity	2014/15	2013/14
Complaints received re. councillors and members in public bodies	692	311
Investigations completed re. councillors and members	692	291
Participated in Standards Commission hearings	9	6
Complaints received re MSPs	20	21
Oversight of appointment rounds	39	59

Financial management

35. As auditors we need to consider whether bodies have established adequate financial management arrangements.

We do this by considering a number of factors, including whether:

- the officer responsible for finance has sufficient status to be able to deliver good financial management
- standing financial instructions and standing orders are comprehensive, current and promoted within the body
- reports monitoring performance against budgets are accurate and provided regularly to budget holders
- monitoring reports do not just contain financial data but are linked to information about performance
- members provide a good level of challenge and question budget holders on significant variances.

36. Based on our accumulated knowledge and our review of relevant papers we conclude that the Commissioner has appropriate financial management arrangements in place.

2015/16 and beyond

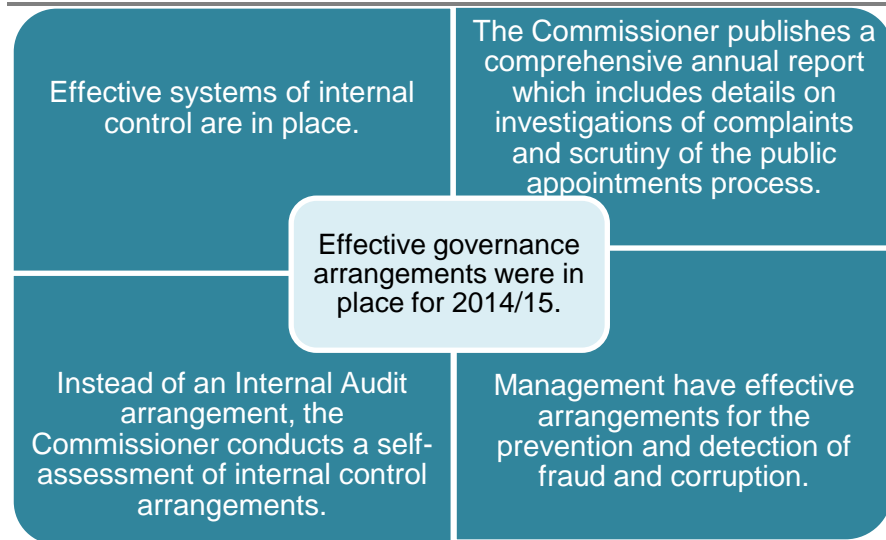
37. The Commissioner held cash and cash equivalents of £67,000 at the 31 March 2015. The framework agreement with the Scottish Parliamentary Corporate Body states that they should retain the level of funds required to meet any relevant liabilities at the year-end. Consequently this level of liquid funds is not inappropriate.

38. The Commissioner's core funding for 2015/16 is £811,000.

Financial management and sustainability

39. The office of Commissioner moved offices in October 2014 and now shares premises with the Scottish Legal Aid Board, the Judicial Appointment Board for Scotland, the Mental Welfare Commission for Scotland and the British and Irish Councils.

Governance and transparency



Corporate governance

40. The Commissioner, as Accountable Officer, is responsible for establishing arrangements for ensuring the proper conduct of the affairs of the office of the Commissioner and for monitoring the adequacy of these arrangements.

41. The Commissioner is appointed by the Scottish Parliamentary Corporate Body with the approval of the Scottish Parliament. Strategic direction and performance is determined by the Commissioner, assisted by a management team.
42. The Commissioner is supported by an Audit Advisory Board (AAB) which oversees the Commissioner's arrangements for corporate governance and provides him with assurance as to compliance. The Commissioner considers all external audit reports and ensures any issues raised are addressed.

Transparency

43. The Commissioner publishes a comprehensive annual report which includes details on investigations of complaints and scrutiny of the public appointments process.

Accounting and Internal control systems

44. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk.
45. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely

Governance and transparency

affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Internal assurance

46. Due to the size of the organisation and the Commissioner's assessment of risk, there is no arrangement for internal audit activity to be conducted. As well as annually completing an internal control checklist, the Commissioner's review of the effectiveness of governance arrangements is informed by:

- the work of the AAB
- reports and comments made by external auditors
- the work of the management team
- a review of the objectives in strategic and annual business plans
- review of systems and procedures in place to manage staff, finances and risks.

Arrangements for the prevention and detection of fraud

47. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.

48. There were no instances of fraud or corruption reported by the Commissioner in 2014/15.

49. We assessed the arrangements for the prevention and detection of fraud during the planning phase of our audit. We concluded that there are effective arrangements for the prevention and detection of fraud, although it should be noted that no system can eliminate the risk of fraud entirely.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

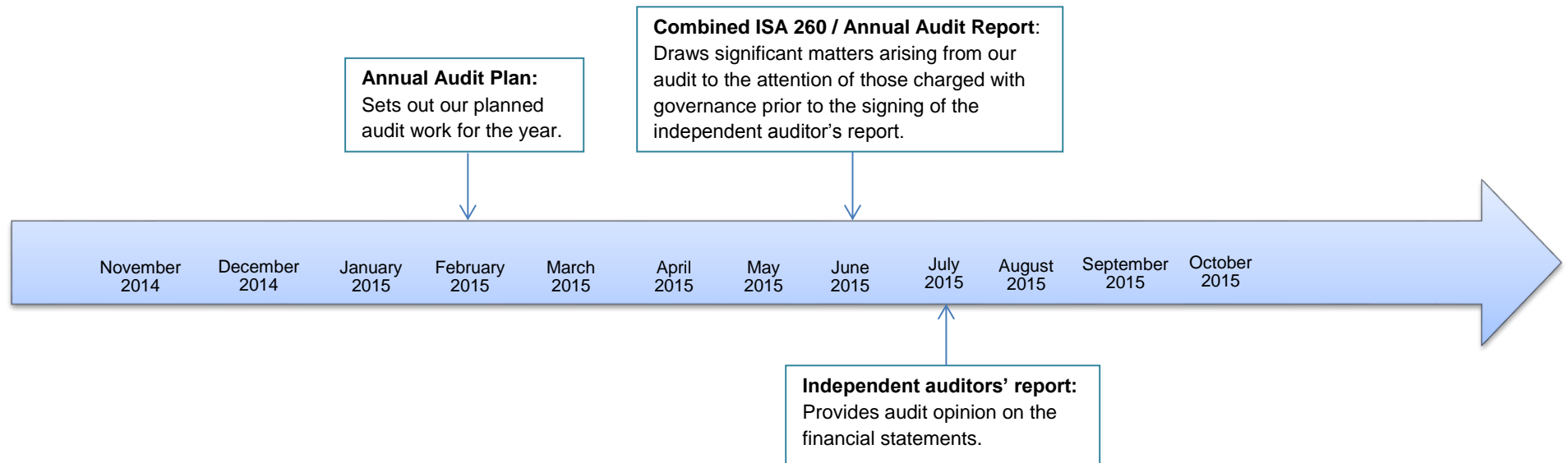
50. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. No issues have been identified by us for inclusion in this report.

Appendix 1 – Audit risks

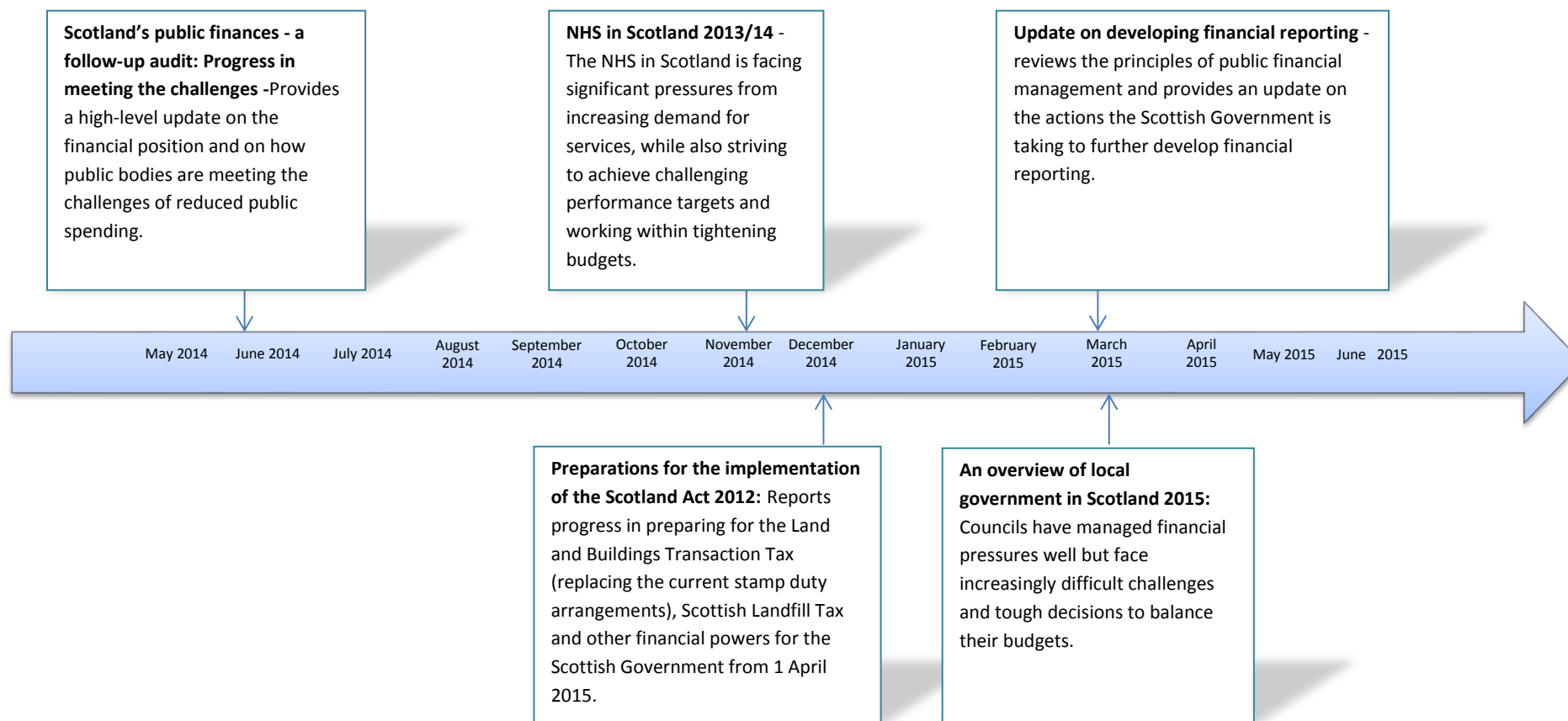
The table below sets out the audit risks identified in our 2014/15 Annual Audit Plan, how we addressed each risk and our judgement in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusion
<p>Financial management</p> <p>As a result of receiving an increasing number of complaints it is difficult to accurately predict whether the Commissioner has sufficient budget for 2014/15.</p> <p><i>There is a risk that this may impact on the Commissioner's overall financial position for 2014/15.</i></p>	<ul style="list-style-type: none"> • We reviewed the level of expenditure incurred by year end and the in-year processes for monitoring projected spend. 	<p>Arrangements were put in place for contingency funding with the Scottish Parliament. However this was not required as complaint activity did not continue as projected, relocation costs were reduced and significant savings in public appointments activity were achieved.</p> <p>Satisfactory</p>
<p>Management override of controls</p> <p>ISA240 requires auditors to consider, on all audits, management's ability to manipulate accounting records and prepare fraudulent or biased statements by overriding controls that otherwise appear to be operating effectively.</p> <p><i>There is a risk of misstated accounting records.</i></p>	<ul style="list-style-type: none"> • We conducted substantive audit work • We ensured we 'understood the business' to consider the nature of accounting transactions • We conducted cut-off audit testing 	<p>Satisfactory</p>

Appendix 2 – Summary of local audit reports 2014/15



Appendix 3 – Summary of national reports 2014/15



Appendix 4 – Action plan

No.	Para/page	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
1.	24	<p>Issue: The 2015/16 FReM has been extensively re-written and includes significant changes to the form and content of the annual report and accounts.</p> <p>Risk: The Commission’s 2015/16 financial statements do not reflect the revised FReM requirements.</p> <p>Recommendation: Management should review the revised requirements to identify the impact upon their 2015/16 financial statements, and discuss these with their external auditors as required.</p>	The Business Manager will investigate the changes and identify and assess their impact on the 2015/16 accounts. She will meet with the external auditor to discuss their view on the changes required.	Business Manager	December 2015