



Scottish Public

Services

Ombudsman

Annual audit report 2014/15

Prepared for the Scottish Public Services
Ombudsman and the Auditor General for
Scotland

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The Auditor General for Scotland appoints external auditors to central government bodies (www.audit-scotland.gov.uk/about/ags). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. (www.audit-scotland.gov.uk)

This report has been prepared for the use of the Scottish Public Services Ombudsman 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 and Advisory Committee. The information in this report may be used by Audit Scotland in any reporting to the Scottish Parliament.

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Key Messages

 <p>Audit of financial statements</p>	<p>The independent auditor has issued an unqualified report on the 2014/15 financial statements.</p>
 <p>Financial management and sustainability</p>	<p>The accounts are prepared on an accruals basis. However, management also closely monitor financial performance on a cash basis.</p> <p>The financial outturn for the year is within the cash budget allocated by Scottish Ministers: in 2014/15 the SPSO recorded cash expenditure of £3,276,000, the cash drawn down from the SPCB totalled £3,271,413, and this was in line with final allocated budget (£3,271,500), which was increased during the year to cover unbudgeted contingencies.</p> <p>We confirm the financial sustainability of the SPSO on the basis of confirmation received from the SPCB that they will fund liabilities as they arise.</p>
 <p>Governance and transparency</p>	<p>Overall we found that the SPSO had sound governance arrangements.</p> <p>Systems of internal control operated effectively during 2014/15.</p>

Key Messages



Outlook

The cash budget for 2015/16 of £3.242 million is a 0.09 per cent decrease in the cash budget from 2014/15, which was determined on the basis of operational activities identified within the 2015/16 Business Plan. The number of complaints and enquiries processed each operational year is demand driven and outwith the control of the SPSO. This continues to be a challenge in the management of the financial arrangements of the SPSO. The Scottish Parliament has proposed in the Welfare Funds (Scotland) Bill (SWF) that future permanent arrangements for the SWF scheme's external review will be provided by the SPSO from 1 April 2016. Currently, funding for this area of activity is on a cost recovery basis from the Scottish Government. The SPCB and the SPSO acknowledge that accurately determining budget requirements in this area is outwith their control.

Delivering the SPSO business activity effectively is dependent on having sufficient staff/members.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of the Scottish Public Services Ombudsman (SPSO).
2. The management of the SPSO 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 SPSO 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 that have been 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 appendix II.
6. There is one high level issue, in our view, that although historic, requires to be communicated from the audit in accordance with ISA 260.
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 SPSO for 2014/15 give a true and fair view of the state of the body's affairs and of its 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 Public Services Ombudsman Act 2002 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 2014/15 FReM and the requirements of the Scottish Public Services Ombudsman Act 2002 and directions.
- The information in the management commentary and strategic 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 and the staff provided good support to the audit team. We completed our on-site fieldwork on 16 July 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 presented to the Audit and Advisory Committee on 17 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 set out in the Annual Audit Plan 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 two 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 I sets out the significant audit risks identified at the

planning stage and how we addressed the 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. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other qualitative reasons (for example 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 programme. 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 Annual Audit Plan. Based on the financial statements, we revised our planning materiality for 2014/15 to £3,500 (1% of gross expenditure). Performance materiality of £1,800 is determined to ensure that uncorrected and undetected audit differences do not exceed our planning materiality level. We normally report

Audit of the 2014/15 financial statements

all misstatements greater than £1,000.

Evaluation of misstatements

18. One misstatement was identified during the audit impacting on disclosure within the financial statements, which exceeded our misstatement threshold and materiality tolerance. This has been amended and there are no unadjusted errors in the financial statements impacting on a true and fair view.

Significant findings from the audit

19. 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.
20. One significant monetary adjustment in the financial statements was made in relation to the disclosure of 'Office Alterations and Fit Out' depreciation. A large depreciation

calculation error which had been identified and corrected from 2009 onwards had not been corrected for the years between 2003 and 2008. This oversight of the early-years' correction was detected this year and initially adjusted in year. Disclosure of this type of adjustment amounting to £33,800 should be a prior period adjustment and was amended. This is now disclosed appropriately in the financial statements.

21. Any other adjustments were minor presentational and monetary rounding errors that were identified in the financial statements during the course of our audit. These were discussed with relevant officers.

Future accounting and auditing developments

Revisions to the Financial Reporting Manual (FReM)

22. The financial statements are prepared in accordance with the Government financial reporting manual (FReM). Two significant revisions will apply from 2015/16:
 - Adoption of IFRS13 Fair value measurement for the first time – this also includes IAS 16 and IAS 38 adaptations
 - Simplification and Streamlining Project – changes to the form and content of the annual report and accounts.
23. **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.
24. This change will have limited application to the SPSO's financial statements.
25. **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.
26. The SPSO will need to consider the implications for its Annual Report next year.

Financial management and sustainability

27. The Scottish Public Services Ombudsman was constituted under Section 1 of the Scottish Public Services Ombudsman Act 2002. The Ombudsman is Jim Martin who was appointed 1 May 2009, and re-appointed on 1 May 2011 for a period of six years. The SPSO is located in Edinburgh and supported by approximately 50 staff.
28. The SPSO's statutory functions, as provided for by the 2002 Act, are:
- to investigate complaints from members of the public about maladministration and service failure by public bodies and others who provide and deliver public services. This includes local authorities, NHS bodies, housing associations, colleges & universities, prisons, Scottish Water and the Scottish Government and its agencies and departments
 - to increase public awareness, knowledge and understanding of the service by, for example, issuing guidance, publishing leaflets and participating in a range of outreach activities
 - to promote good administrative practice and, using the evidence from its investigations, to contribute to the development and improvement of the delivery of public services in Scotland
- to lead the simplification and standardisation of complaints handling throughout the public sector in Scotland using the responsibility and authority of statutory powers in relation to model Complaints Handling Procedures.
29. The Scottish Parliamentary Commission and Commissioners etc. Act 2010 provided that with effect from 1 April 2011 the SPSO would be supported by the Scottish Parliamentary Corporate Body (SPCB).

2014/15 financial position

30. The accounts are prepared on an accruals basis. However, management also closely monitor financial performance on a cash basis.
31. The main financial objective for the SPSO is to ensure that the cash drawn down for the year is within the cash budget allocated by the SPCB. In 2014/15, the SPSO recorded cash expenditure of £3.276 million. Cash drawn down from the SPCB totalled £3.272 million which matched the cash budget of £3.272 million.

Financial position

32. A net assets position of £77,000 was recorded in 2014/15 compared to a net assets position of £187,000 in 2013/14. This has arisen predominantly as a result of the depreciation of non-current assets, such as property, plant and equipment and intangible assets..

Financial management

33. 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 Director to the SPSO 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.
34. Based on our accumulated knowledge, our review of relevant papers, we conclude that the SPSO has appropriate financial management arrangements in place.

Budgetary Control

35. Overall, budgetary control is satisfactory; SPSO undertakes budget monitoring on a cash basis to monitor expenditure against the cash budget allocated by the SPCB. This takes into account that although goods and services may be consumed within one financial year, the costs will only be counted when the invoice is actually paid – which may be in the following financial year. At the financial year end the SPSO prepares Financial Statements on an accruals basis. This is to meet the requirements stated in the Direction by Scottish Ministers that the statement of accounts is prepared to comply with the accounting principles and disclosure requirements of the Government FReM which is in force for the year for which the statement of accounts are prepared.

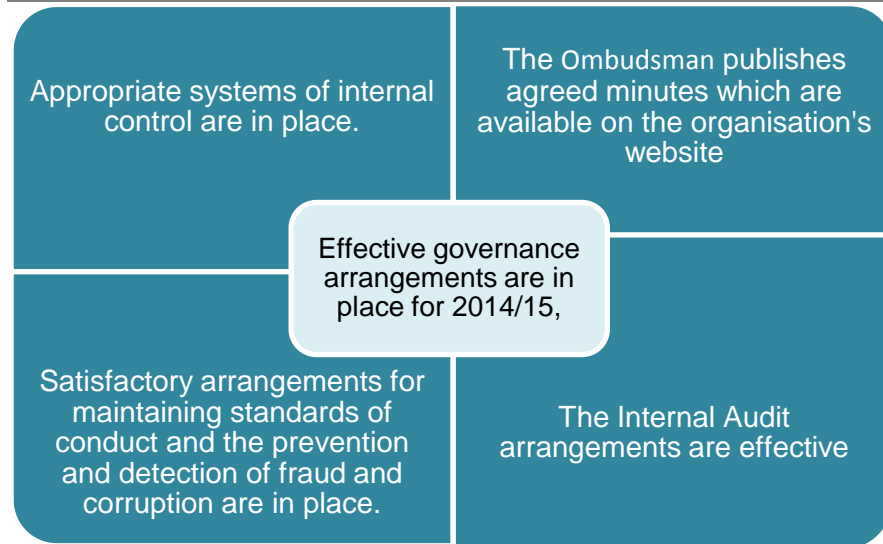
Quality of Information

36. Overall the information supporting the financial statements has been of a good quality and we appreciate the assistance provided by the staff of the SPSO.

Outlook

37. The cash budget for 2015/16 of £3.242 million is a 0.09% decrease in the cash budget from 2014/15, which was determined on the basis of operational activities identified in the 2015/16 Business Plan. The number of complaints and enquiries processed each operational year is demand driven and outwith the control of the SPSO. This continues to be a challenge and identified as a risk in the management of the financial arrangements of the SPSO.
38. The Scottish Parliament has proposed in the Welfare Funds (Scotland) Bill that future permanent arrangements for the SWF scheme's external review will be provided by the SPSO from 1 April 2016. Currently, funding for this area of activity is on a cost recovery basis from the Scottish Government. The SPCB and the SPSO acknowledge that accurately determining budget requirements in this area is outwith their control.
39. The SPSO will continue to provide information to the Scottish Parliament and work with the SPCB with regards to shared services and other opportunities for improving cross-agency working and multi-organisational efficiencies as well as in managing the introduction of new areas of responsibility agreed by the SPCB.

Governance and transparency



Corporate governance

40. The SPSO is responsible for establishing arrangements for ensuring the proper conduct of the affairs of the SPSO and for monitoring the adequacy of these arrangements.
41. The Ombudsman is accountable for the finances of the SPSO to the Scottish Parliament and is the designated Accountable Officer.
42. The Ombudsman is supported by a Senior Management Team. They hold regular meetings to consider strategic issues and

the minutes are published on the SPSO website.

Transparency

43. The Scottish Government's On Board guidance (<http://www.gov.scot/Publications/2015/04/9736/0>), for board members of public bodies was updated and reissued in April 2015. On Board states that boards should demonstrate high standards of corporate governance at all times including openness and transparency in decision making. It recommends boards should consider:

- Holding an annual open meeting
- Holding board meetings in public unless there is a good reason not to
- Publishing summary reports and/or minutes of meetings
- Inviting evidence from members of the public in relation to matters of public concern
- Consulting stakeholders and users on a wide range of issues
- Making corporate plans and the annual report widely available.

44. The SPSO seeks to apply the principles detailed within On Board to its operating procedures where this is practicable and reasonable. Whilst the SPSO's Committee meetings are held

Governance and transparency

in private the minutes from the meetings of the SPSO are available on their website.

45. Overall we concluded that the SPSO is open and transparent as far as confidential considerations allow. The Senior Management Team and Audit and Advisory Committee meetings are held in private because of the confidential and sensitive nature of their business. The SPSO should keep their openness and transparency in decision making under review.

Internal control

46. 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.
47. No material weaknesses in the accounting and internal control systems were identified during the 2014/15 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 financial statements.

Internal audit

48. Internal audit provides the Audit and Advisory Committee and accountable officer with independent assurance on the overall risk management, internal control and corporate governance

processes.

49. Internal audit is part of the SPSO's governance structure, and the SPSO makes arrangements for the internal audit of systems annually, setting out priority areas based on assessment of risk and assurances required.

Arrangements for the prevention and detection of fraud

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.
51. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In our opinion the SPSO's overall arrangements for the prevention of fraud, irregularity and corruption are satisfactory, although it should be noted that no system can eliminate the risk of fraud, irregularity or corruption entirely.

Best Value

52. Accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. Audited bodies are responsible for ensuring that these matters are given due priority and resources, and that proper procedures are established and operate satisfactorily.
53. The Auditor General may require that we consider whether accountable officers have put in place appropriate arrangements to satisfy the SPSO's corresponding duty of best value. Where such requirements are not specified we may, in conjunction with the SPSO, agree to undertake local work in this area.
54. We did not undertake any specific work in this area during 2014/15.

Performance

55. In 2014/15 the SPSO received 5,667 complaints and enquiries, compared to 4,819 in the previous year. In total, the volumes reflect an increase of 18% in overall contact including a 10% increase in the volume of complaints received. The number of complaints resolved increased by 9%, while available case-handling resource rose slightly. A continuing challenge is associated with the continuing predicted increase in cases received with the potential to create a backlog of cases in future.

National performance audit reports

56. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, a number of reports were issued which are of direct interest. These are outlined in appendix II.
57. **Scotland's public finances - a follow-up audit: Progress in meeting the challenges.** This report was published in June 2014 and commented that, in setting budgets, public bodies need to focus more on their priorities, making clearer connections between planned spending and the delivery and measurement of outcomes.
58. **Update on developing financial reporting:** This update report, published in March 2015, reviewed the principles of public financial management and provided an update on the actions the Scottish Government is taking to further develop financial reporting.
59. The report concludes that the Scottish Government, and the public sector generally, have a good record of financial management and reporting. The Scottish Government has

Best value

continued to improve and develop its financial reporting framework since we last reported. The report highlights that consolidated accounts for the whole of the Scottish public sector would help provide an overall picture of its financial position to strengthen understanding and transparency.

Appendix I – Significant audit risks

The table below sets out the audit risk, how we addressed the risk and our judgement in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Financial audit issues		
<p>Management override of controls: Auditing standards (ISA 240) The auditor’s responsibility to consider fraud in an audit of financial statements require auditors to consider, on all audits, management’s ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<p>We will perform detailed testing of journal entries and accounting estimates. We will also evaluate any significant transactions that are outside the normal course of business.</p>	<p>No unusual or incorrect entries found from testing.</p>

Appendix I – Significant audit risks

Audit Risk	Assurance procedure	Results and conclusions
<p>Financial Management: In a period of reducing resources across the public sector, it will be a challenge to balance expenditure and staffing levels against a reduced budget, especially when there is potential for increasing workload. In particular 2015/16 is the transition year for responsibility for Scottish Welfare Funds and Social Work complaints, both of which will be effective after 1 April 2016. These will be subject to additional funds.</p> <p>SPSO has requested additional contingency funding from the Scottish Parliamentary Corporate Body for 2015/16 to cover unforeseen expenditure.</p>	<p>We monitored the financial outturn against budget.</p>	<p>We reviewed the financial outturn against the cash budget and noted that there was no evidence that the processing of complaints were not being met in 2014/15.</p> <p>We will continue to monitor the financial outturn against budget in future years given the increased challenges to the SPSO's financial environment.</p>

Appendix II – Summary of local and national audit reports 2014/15

