



Scottish Public Services Ombudsman

Report to the Scottish Public Services Ombudsman and the Auditor
General for Scotland on the 2017/18 audit

Issued on 3 August for the meeting 7 September 2018

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Introduction

The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Ombudsman for the 2018 audit. The scope of our audit was set out within our planning report presented to the Ombudsman in February 2018.

This report summarises our findings and conclusions in relation to:

- The audit of the **financial statements**; and
- Consideration of the wider scope requirements of public sector audit. This includes our consideration of the Accountable Officers' duty to secure best value. As set out in our plan, due to the relative size and scale of the functions delivered by the Scottish Public Services Ombudsman (SPSO), we concluded that the full wider scope audit was not appropriate. In accordance with paragraph 53 of the Code, our work in this area was restricted to concluding on:
 - The appropriateness of the disclosures in **the governance statement**; and
 - The **financial sustainability** of SPSO and the services that it delivers over the medium to longer term.

Introduction (continued)

The key messages in this report – financial statements audit

I would like to draw your attention to the key messages of this paper in relation to the audit of the financial statements:

Conclusions from our testing

- The significant risks, as identified in our audit plan, related to:
 - Achievement of expenditure resource limits; and
 - management override of controls.
- A summary of our work on the significant risks is provided in the dashboard on page 8.
- We have identified no audit adjustments from our procedures to date.
- The performance report and annual governance statement comply with the statutory guidance and proper practice and are consistent with the financial statements and our knowledge of SPSO.
- The auditable parts of the remuneration report have been prepared in accordance with the relevant regulation.
- Based on our audit work, we expect to issue an unmodified audit opinion.

Insights

- We have utilised Deloitte's analytics tool, to perform analytics on the journal entries posted in the year to profile the journal population which has helped us identify journals of audit interest, such as journals with key words. No issues were noted from this testing.

Status of the audit

- The audit is substantially complete subject to the completion of the following principal matters:
 - Receipt of signed management representation letter; and
 - our review of events since 31 March 2018.

Introduction (continued)

The key messages in this report – wider scope

The following sets out the key messages of this paper in relation to the wider scope work:

Financial sustainability

As with all public sector bodies, SPSO continues to face a challenging financial position due to challenging budgets and uncertainty around future funding. Despite these challenges, SPSO met its financial targets in 2017/18 as summarised below:

2017/18 final outturn position reported an under spend against its approved budget of £39k (1%) . SPSO received funding in the year of £4,368k and spent £4,329k.	Contingency funding of £63.8k was received in 2017/18 £35k to set up a clinical advisory service and £28.8k to employ someone to cover the additional requirements for SPSO now taking on the role of the Independent National Whistleblowing Office (INWO) for the NHS in Scotland.	A balanced budget for 2018/19 was approved in March 2018. SPCB (Scottish Parliamentary Corporate Body) approved an annual funding budget of £4,400k .	SPCB only confirms funding allocations for 1 year in advance. This makes it very difficult for SPSO to plan financially over the medium to longer term
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Governance statement

We have reviewed the annual governance statement for appropriateness of the disclosures in the governance statement or any other issues and best practice.

Pat Kenny
Audit Director

Our audit explained

Area dimensions

In accordance with the 2016 Code of Audit Practice, we have considered how you are addressing the wider audit dimensions:

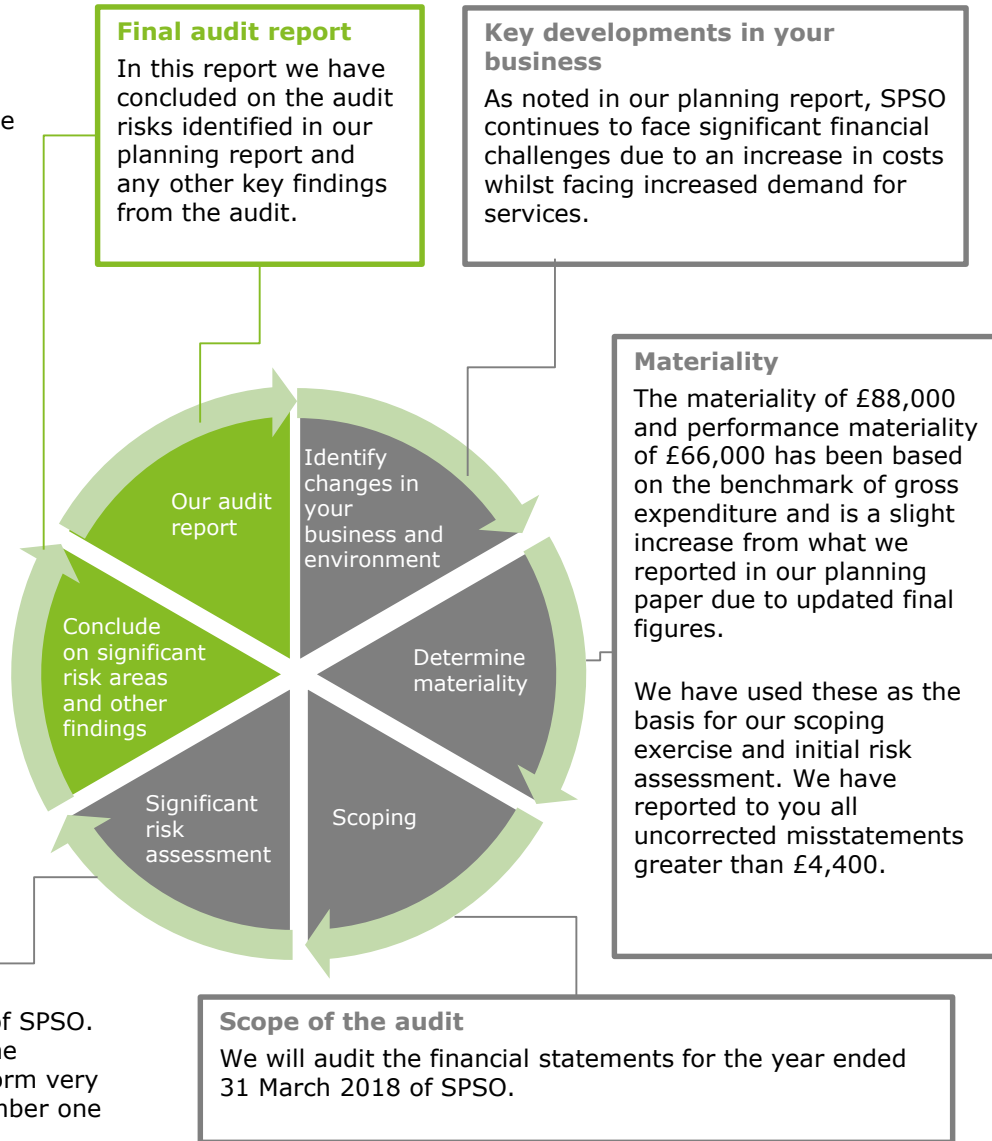
- Financial sustainability
- Governance and transparency

Significant risks

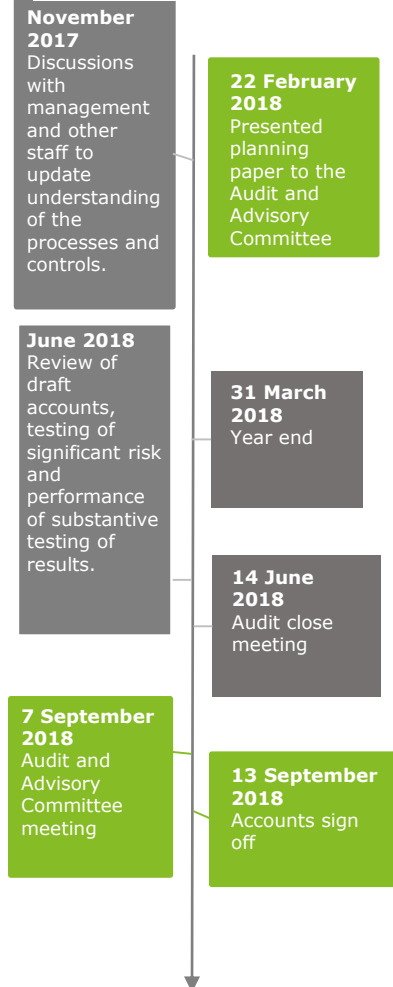
Our risk assessment process is a continuous cycle throughout the year. Page 8 provides a summary of our risk assessment of your significant risks.

Quality and Independence

We confirm we are independent of SPSO. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.









Timeline 2017/18



Financial statements audit



Significant risks Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Slide no.
Achievement of expenditure resource limit			D+I	Satisfactory		Satisfactory	9
Management override of controls			D+I	Satisfactory		Satisfactory	10

Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

D+I: Testing of the design and implementation of key controls

Significant risks (continued)

Risk 1 – Achievement of expenditure resource limits

Risk identified

The key financial duty for SPSO is to comply with the budget approved by the SPCB to cover cash expenditure and non-cash costs such as depreciation and amortisation. Given the pressures across the whole of the public sector, there is an inherent risk associated with the accuracy and completeness of recording of expenditure as there is an incentive for management to either over or under accrue expenditure at the year-end, depending on the forecast position, in order to meet the allocation. The significant risk is therefore pinpointed to accruals and prepayments made by management at the year end and invoices processed around the year end as this is the area where there is scope to manipulate the final results.



Key judgements and our challenge of them

Given the financial pressures across the whole of the public sector, there is an inherent fraud risk associated with the recording of accruals and prepayments around year end.

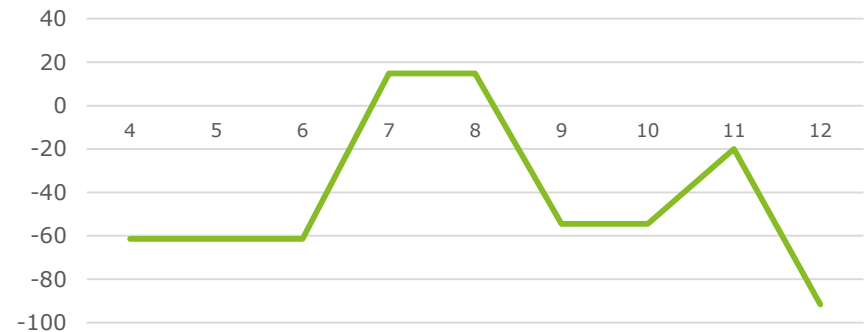


Deloitte response

We have evaluated the results of our audit testing in the context of the achievement of the target set by the SPCB. Our work in this area included the following:

- obtained independent confirmation of the resource limits allocated to the SPSO by the SPCB;
- performed focused testing of accruals and prepayments made at the year end; and
- performed focused cut-off testing of invoices received and paid around the year end.

Forecast (under)/over spend in the year (£000)



Deloitte view

We have concluded through the performance of our year end procedures that the expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the Scottish Ministers and the expenditure is valid and correctly classified.

We confirm that SPSO has performed within the limits set by the SPCB and therefore is in compliance with the financial targets in the year.

As illustrated in the graph above SPSO's forecast varied between being over and underspent throughout the year. The forecast overspend part way through the year is due to committed overtime. However this is offset by an underspend in professional fees as there has been limited requirement to date in the Ombudsman's new area of jurisdiction for social work complaints.

Significant risks (continued)

Risk 2 - Management override of controls



Risk identified

In accordance with ISA 240 management override is a significant risk. This risk area includes the potential for management to use their judgement to influence the financial statements as well as the potential to override SPSO's controls for specific transactions.

The key judgments in the financial statements are those which we have selected to be the significant audit risks around recognition of income. This is inherently the areas in which management has the potential to use their judgment to influence the financial statements.

Deloitte view

We have not identified any significant bias in the key judgements made by management.

Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- SPSO's results throughout the year were varied projecting overspends and underspends, see page 9 for further detail. This was closely monitored and the underlying reasons were well understood and regular discussions were held with the SPCB; and
- senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Significant transactions

We did not identify any significant transactions outside the normal course of business or any transactions where the business rationale was not clear.

Journals

We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.

We performed design and implementation testing of the controls in place for journal approval. We have used data analytics tools to test a sample of journals, based upon identification of items of potential audit interest.

Accounting estimates

In addition to our work on key accounting estimates discussed above, our retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements has been completed with no issues noted.

Our audit report

Other matters relating to the form and content of our report

Here we discuss how the results of the audit impact on other significant sections of our audit report. The revisions to ISA (UK) 700 have changed the form and content of audit report, including how different sections are presented.



Our opinion on the financial statements

Our opinion on the financial statements is unmodified.



Material uncertainty related to going concern

We have not identified a material uncertainty related to going concern and will report by exception regarding the appropriateness of the use of the going concern basis of accounting.



Emphasis of matter and other matter paragraphs

There are no matters we judge to be of fundamental importance in the financial statements that we consider it necessary to draw attention to in an emphasis of matter paragraph.

There are no matters relevant to users' understanding of the audit that we consider necessary to communicate in an other matter paragraph.



Other reporting responsibilities

The Annual Report is reviewed in its entirety for material consistency with the financial statements and the audit work performance and to ensure that they are fair, balanced and reasonable.

Opinion on regularity

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Our opinion on matters prescribed by the Auditor General for Scotland are discussed further on page 12.

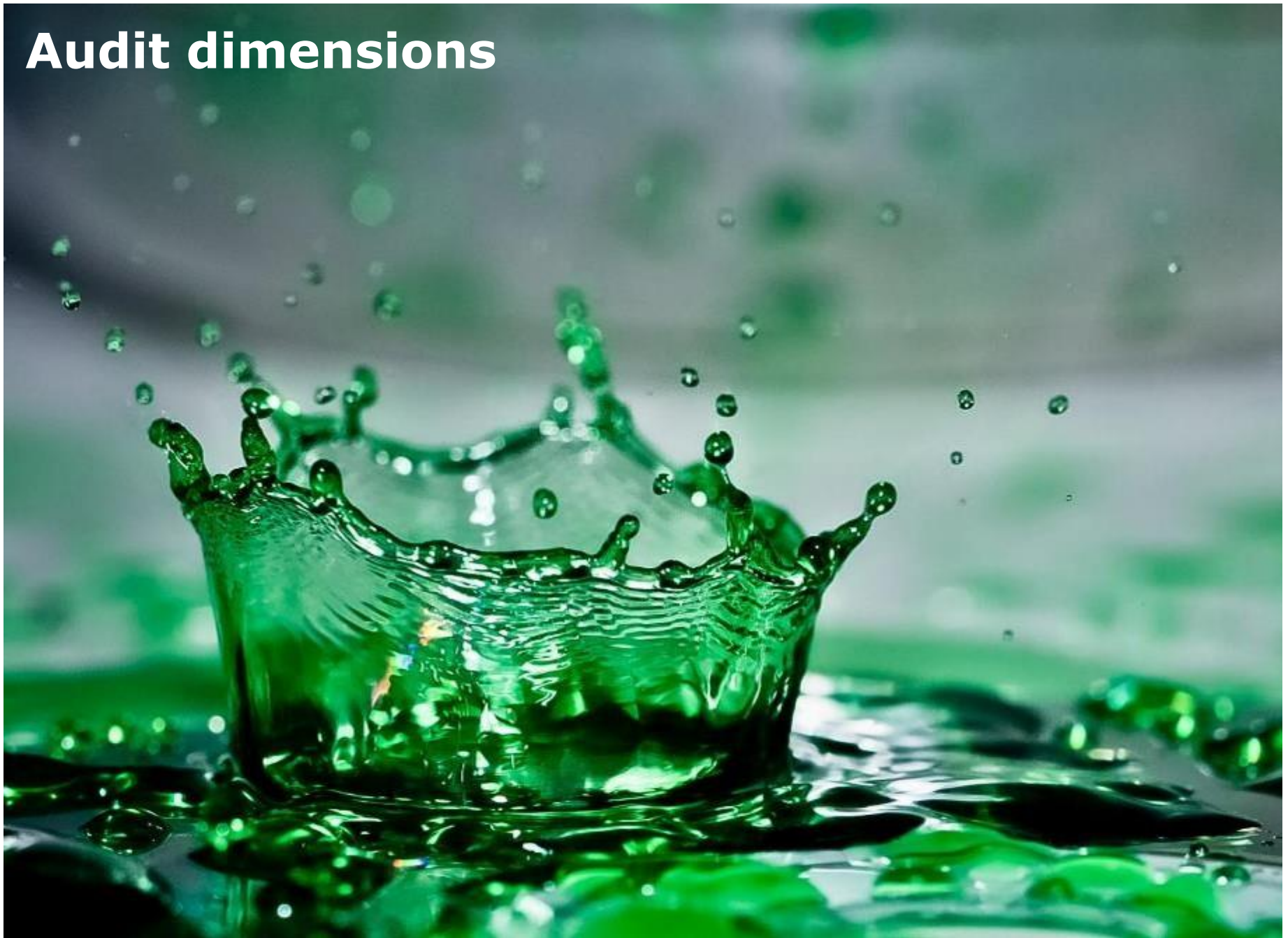


Your annual report

We welcome this opportunity to set out for the Ombudsman our observations on the annual report. We are required to provide an opinion on the remuneration report, the annual governance statement and whether the management commentaries are consistent with the disclosures in the accounts.

	Management response	Deloitte response
The Performance Report	The report outlines SPSO's performance, both financial and non-financial. It also sets out the key issues and discusses the laying of the new Strategic Plan.	<p>We have assessed whether the performance report has been prepared in accordance with the accounts direction. No exceptions noted.</p> <p>We have also read the performance report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p>
The Accountability Report	Management have ensured that the accountability report meets the requirements of the FReM, comprising the governance statement, remuneration and staff report and the parliamentary accountability report.	<p>We have assessed whether the information given in the governance statement is consistent with the financial statements and has been prepared in accordance with the accounts direction. No exceptions noted.</p> <p>We have also read the accountability report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>We have also audited the auditable parts of the remuneration and staff report and confirmed that it has been prepared in accordance with the accounts direction.</p>
Going Concern	Management has made appropriate disclosure relating to Going Concern matters.	The 2018/19 budget was approved by the SPCB on 6 March 2018. We have concluded that the plan is sufficiently robust to demonstrate that SPSO will be a going concern for 12 months from signing the accounts.

Audit dimensions



Wider scope audit work

Overview

Public audit in Scotland is wider in scope than financial audit. This section of our report sets out our findings and conclusion on our audit work covering the following area. As set out in our plan, due to the relative size and scale of the functions delivered by SPSO, we concluded that the full wider scope audit was not appropriate. In accordance with paragraph 53 of the Code, our work in this area was restricted to concluding on:

- The appropriateness of the disclosures in the **governance statement**; and
- The **financial sustainability** of the SPSO and the services that it delivers over the medium to longer term.

Our report is structured in accordance with these two specific areas, but also covers our specific audit requirements on best value and specific risks as summarised below.

Best Value (BV)

The Scottish Public Finance Manual sets out that accountable officers appointed by the Principal Accountable Officer for the Scottish Administration have a specific responsibility to ensure that arrangements have been made to secure best value.

We have considered the accountable officers' duty to secure BV as part of the governance arrangements considered as part of the wider scope audit work.

Specific risks (SR)

As set out in our Annual Audit Plan, Audit Scotland had identified a number of significant risks (SRs) faced by the public sector which we have considered as part of our work on the four audit dimensions.

SR 1 – EU Withdrawal

SR 2 – New Financial Powers

SR 3 – Ending public sector pay cap

SR 4 – Cyber security risk

SR 5 – Openness and transparency

Wider scope audit work (continued)

Governance statement

Audit dimension

As part of the annual audit of the financial statements, we have considered the appropriateness of the disclosures in the governance statement.

Areas considered



- The completeness of the disclosures in meeting the requirements of the essential features, as specified in the Scottish Public Finance Manual.
- Inconsistencies between the disclosures or between the disclosures and audit knowledge.

Deloitte response



Based on our audit work and the work of internal audit, we have not identified for reporting any changes in governance arrangements or any issues of concern in the governance statement.

Deloitte view

The governance statement meets the requirements of the Scottish Public Finance Manual and no inconsistencies have been noted.

Wider scope audit work (continued)

Financial sustainability

Audit dimension

As part of the annual audit of the financial statements, we have considered the appropriateness of the use of the going concern basis of accounting. Going concern is a relatively short-term concept looking forward 12 to 18 months from the end of the financial year. Financial sustainability interprets the requirements and looks forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Areas considered



- The financial planning systems in place across the shorter and longer terms.
- The arrangements to address any identified funding gaps.
- The affordability and effectiveness of funding and investment decisions made.
- Workforce planning.

Deloitte response



We have monitored the body's actions in respect of its short, medium and longer term financial plans to assess whether financial balance can be achieved.

Deloitte view

SPSO continues to face an extremely challenging financial position, however, financial targets were met in 2017/18.

SPSO's budget for 2018/19 has been approved by the SPCB. A budget of £4,400k has been approved.

Wider scope audit work (continued)

Financial sustainability (continued)

Short term financial position

For **2017/18**, the Ombudsman approved a balanced budget of £4,403k (2016/17: £3,360k). In 2017/18 contingency funding of £63.8k was received in the year; £35k to set up a clinical advisory service and £28.8k to employ someone to cover the additional requirements for SPSO now taking on the role of the Independent National Whistleblowing Office (INWO) for the NHS in Scotland.

The final position for 2017/18, was expenditure of £4,329k, which was an underspend of £39k.

The **2018/19** budget was approved by the SPCB on 6 March 2018. This budgeted total expenditure of £4,400k

In the Strategic Plan 2018-2020 the Ombudsman recognises the 'oversight' part of SPSO work is largely driven by the number of complaints and reviews she receives, and the number and type of organisations within her jurisdiction.

Therefore if volumes rise, either the resources to deliver them need to increase or performance suffers.

The budget includes pay awards which have been aligned to the thresholds set out by the Cabinet Secretary in the Stage 1 debate on 31 January 2018.

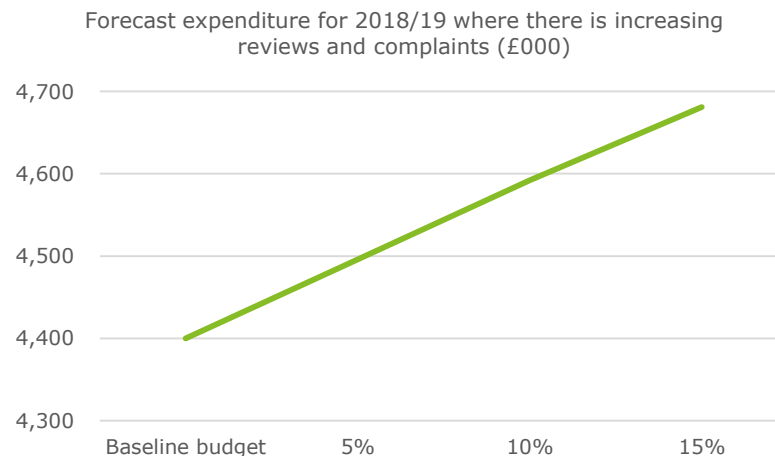
Medium to long term financial sustainability

SPSO has managed its budget effectively over the last few years, managing to maintain its costs within the expenditure limit.

With the number of organisations coming under the Ombudsman's jurisdiction increasing in the year (Social work complaints are now under her jurisdiction) it can be expected that there will be an increase in the volume of cases.

To plan for the increase in complaints and reviews, within the Strategic Plan is an indicative forecast of what a 5%, 10% and 15% increase across the board of volume driven work could look like in relation to the SPSO's baseline budget for 2018/19, which can be seen in the graph below.

In order to fund any rise in demand SPSO will seek to make improvements and efficiencies in the services provided, however, should the organisation require additional funding the SPSO will liaise directly with SPCB.



Wider scope audit work (continued)

Specific risks

In accordance with our Audit Plan, we have considered the specific risks identified by Audit Scotland as part of our audit as follows:

Risk identified	Response
<p>EU Withdrawal</p>	<p>The UK is expected to leave the European Union (EU) on 29 March 2019, followed by a transition period to the end of 2020. There are still a lot of uncertainties surrounding the terms of the withdrawal agreement but the outcome will inevitably have significant implications for devolved governments in Scotland and for Scottish public sector bodies.</p> <p>Given the scale of the potential implications and possible timescales for implementing changes, it is critical that public sector bodies are working to understand, assess and prepare for the impact on their organisation. This is likely to include consideration of three areas:</p> <p>Workforce: the extent to which potential changes to migration and trade policies are likely to affect the availability of skilled and unskilled labour.</p> <p>Funding: the extent to which potential changes to funding flows including amounts anticipated under existing EU funding programmes, are likely to affect the finances of the organisation and the activity that such funding supports.</p> <p>Regulation: the extent to which potential changes to regulation across a broad range of areas currently overseen at an EU level are likely to affect the activity of the organisation.</p> <p>SPSO has noted that this is unlikely to have a significant impact on their operations but should keep a watching brief as the details are developed.</p>
<p>New financial powers</p>	<p>The Scottish Parliament's new financial and social security powers and responsibilities from the 2012 and 2016 Scotland Acts are fundamentally changing the Scottish public financials. The Scottish Government will publish its medium-term financial strategy in 2018 in response to recommendations in the Budget Process Review Group final report, and has made a number of other commitments to improve financial management and help Parliamentary scrutiny of decisions.</p> <p>As a result of this, there is an expectation that public bodies will be seen before subject committees of the Parliament more often. The SPSO should consider using this as an opportunity to make comment within their annual reports beyond the compliance requirements to clearly articulate their achievements against outcomes and future plans.</p>
<p>Ending public sector pay cap</p>	<p>As discussed on page 17, the 2018/19 budget includes pay awards which have been aligned to the thresholds set out by the Cabinet Secretary in the Stage 1 debate on 31 January 2018. SPSO should consider the impact of any additional costs of the pay increase in excess of 1%.</p>

Wider scope audit work (continued)

Specific risks (specific risks)

Risk identified	Response
Cyber security risk	<p>SPSO is following the Scottish Government Cyber Resilience guidance. Although this is not mandatory for the organisation they have chosen to adopt best practice.</p> <p>SPSO has completed the Cyber Essentials Pre-assessment and the recommendations have been included in the Cyber Resilience Plan. SPSO have a Cyber Resilience Lead who is responsible for ensuring all actions are completed prior to the Cyber Essentials Basic accreditation.</p> <p>The Cyber Essential lead and Director have attended training courses on Cyber Resilience which were held by the Scottish Government.</p> <p>A Cyber Essentials Strategy still needs to be developed, this is included within the Plan. Additionally the staff training plan needs to be updated</p>
Openness and transparency	<p>From our audit work, we are satisfied that SPSO is appropriately open and transparent in their operations and decision making.</p>

Technical update



Technical Update

New accounting standards for 2018/19 and 2019/20

IFRS 9, Financial instruments and **IFRS 15, Revenue from contracts with customers**, have been adopted for the 2018/19 Government Financial reporting manual (FRm). These new standards are not expected to have a significant impact on officeholders.

The effective date of **IFRS 16 Leases is 1 January 2019**, therefore will apply to office holders from 2019/20, subject to both EU and HM Treasury adoption.

IFRS 16 removes the existing classifications of operating and finance leases under IAS 17 *Leases* for lessees.

It requires that a lessee recognises assets and liabilities for all leases with a term of more than 12 months unless the underlying asset is of low value. A lessee will recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing the lessee's obligation to make lease payments for the asset.

Potential impact on SPSO

We recommend SPSO reviews the lease arrangement for their new office. If it qualifies as a lease it will result in a significant amount being carried as an asset/liability in the financial statements and a degree of complexity in determining the amounts to be recognised.

Appendices



Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the the Ombudsman discharge her governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations.
- Other insights we have identified from our audit.

What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Ombudsman.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan and the supplementary "Briefing on audit matters" circulated separately.

This report has been prepared for the SPSO, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.



for and on behalf of Deloitte LLP
Glasgow

3 August 2018

Fraud responsibilities and representations

Responsibilities explained



Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



Required representations:

We have asked the Ombudsman to confirm in writing that she has disclosed to us the results of her own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that she is not aware of any fraud or suspected fraud that affects the entity.

We have also asked the Ombudsman to confirm in writing her responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



Audit work performed:

In our planning we identified the risk of fraud in achievement expenditure resource limits and management override of controls as a key audit risk for your organisation.

During course of our audit, we have had discussions with management, internal audit and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements

We have reviewed the paper prepared by management for the Audit and Advisory Committee on the process for identifying, evaluating and managing the system of internal financial control.

Concerns:

No concerns have been identified regarding fraud.



Independence and fees

As part of our obligations under International Standards on Auditing (UK and Ireland), we are required to report to you on the matters listed below:

Independence confirmation We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.

Fees The audit fee for 2017/18 is £17,520 as analysed below:

	£
Auditor Remuneration	13,430
Audit Scotland Fixed Charges:	
Pooled Costs	3,370
Audit Support Costs	820
Total Fee	17,520

No non-audit services have been provided by Deloitte in the period.

Non-audit services In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.

Relationships We are required to provide written details of all relationships (including the provision of non-audit services) between us and the SPSO, senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.

We are not aware of any relationships which are required to be disclosed.



Events and publications

Our publications and insights to support the Ombudsman

Publications

The State of the State 2017-18

Citizens, government and business

This year's report finds the UK government amid the complex challenge of leaving the EU. Inevitably, this early phase of EU exit is taking place under intense media scrutiny and passionate political debate. But while EU exit issues may dominate headlines, the public services face more local challenges as they address rising demand, budget restraint and renewed levels of concern about social inequality.

The State of the State 2017-18 explores government through three lenses – the citizen lens, the public sector lens and the business lens.

Download a copy of our publication here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/state-of-the-state.html>



Sharing our informed perspective

We believe we have a duty to share our perspectives and insights with our stakeholders and other interested parties including policymakers, business leaders, regulators and investors. These are informed through our daily engagement with companies large and small, across all industries and in the private and public sectors.

Recent publications relevant to the local authorities are shared opposite:

Perspectives: Do you have a digital mindset?

Accelerating health and care integration

Digital technology is helping to transform the way citizens interact with service providers across all other service industries. The time is now ripe for changing the relationship between health and social care commissioners and providers and service users.

Read the full blog here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/do-you-have-a-digital-mindset.html>

Article: Public sector transformation

Five lessons from the private sector

An analysis of private sector global companies, including high-tech start-ups, manufacturers, banks, retailers and insurance firms, reveal five valuable lessons for the public sector.

Read the full article here:

<https://www2.deloitte.com/uk/en/pages/public-sector/articles/public-sector-transformation.html>



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