



Scottish Public Services Ombudsman

2015/16 Annual audit
report to Members and
the Auditor General for
Scotland

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Gillian Woolman Assistant Director, Audit Scotland is the appointed external auditor of the Scottish Public Services Ombudsman for the period 2011/12 to 2015/16.

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.

The information in it may be used by the Auditor General in support of her wider responsibilities, including reporting to the Scottish Parliament.

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Key messages

Audit of financial statements

- We have given an unqualified independent auditor's report on the 2015/16 financial statements.

Financial Position

- All financial targets in 2015/16 were met
- On an accruals basis there is an underspend of £62,000 against an approved budget of £3.2 million. The underspend relates to a significant increase in additional income from shared services and an increase in training services provided by the Scottish Public Services Ombudsman.
- Financial management was found to be generally sound.

Governance & accountability

- Overall, we found the Scottish Public Services Ombudsman has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.
- We consider the Scottish Public Services Ombudsman to be open and transparent with the majority of items being available on the website.
- Systems of internal control operated effectively during 2015/16 based on assurances obtained from the acting Head of Internal Audit of Scottish Legal Aid Board.

Best Value

- Performance against the strategic plan is reported to members and the senior management team on a regular basis and is also available on the website. It is underpinned by detailed annual operational plans and performance measures.

Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of the Scottish Public Services Ombudsman (SPSO).
2. 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
 - publishing with their financial statements an annual governance statement and a remuneration report.
3. Our responsibility, as the external auditor, 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 [appendix II](#) and [appendix III](#).
6. 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.
7. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Audit of the 2015/16 financial statements

Audit opinions

Financial Statements	<ul style="list-style-type: none">• The financial statements of the SPSO for 2015/16 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 2015/16 Financial Reporting Manual (FReM) and the requirements of the Scottish Public Services Ombudsman Act 2002 and Directions.
Regularity	<ul style="list-style-type: none">• In all material respects, the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance.
Other prescribed matters	<ul style="list-style-type: none">• The part of the Remuneration and Staff Report to be audited has been properly prepared in accordance with the requirements of the 2015/16 FReM and the requirements of the Scottish Public Services Ombudsman Act 2002 and directions.• The information given in the Annual Report and Accounts (comprising the Performance Report and Accountability Report) is consistent with the financial statements.

Submission of financial statements for audit

8. We received the unaudited financial statements on 20 May, in accordance with the agreed timetable. The working papers were of a good standard and staff provided support to the audit team which enabled us to complete our on-site fieldwork on 2 June.

Overview of the scope of the audit of the financial statements

9. 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 23 February 2016.
10. 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 any non-audit related services. The 2015/16 agreed fee for the audit was £15,000 and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
11. 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 an appropriate level of assurance.

12. [Appendix I](#) 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.
13. 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

14. 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.
15. We summarised our approach to materiality in our Annual Audit Plan. We revised our planning materiality for 2015/16 on receipt of the unaudited accounts to £32,500 (1% of net operating costs of £3.2 million).
16. We also set a lower level, known as performance materiality, when defining our audit procedures. This is determined to ensure that uncorrected and undetected audit differences do not exceed our materiality level. Performance materiality was set at £16,000 (i.e. 50% of planning materiality). We report all misstatements identified which are greater than £1,000.

Evaluation of misstatements

17. Minor typographical and rounding errors that were identified during the audit have been adjusted in the financial statements. These errors were minor and were well within our materiality tolerance for the financial statements to present a true and fair view.

Significant findings from the audit

18. International Standard on Auditing 260 (ISA 260) requires us to communicate to you significant findings from the audit as detailed below:
 - 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.
19. Minor presentational and monetary rounding errors were identified within the financial statements during the course of our audit. These were discussed with relevant officers. There are no significant issues, in our view, that require to be communicated to you in accordance with ISA 260.

Future accounting and auditing developments

Audit appointment from 2016/17

20. The procurement process for the new round of audit appointments was completed in March 2016 and Deloitte LLP will be the new appointed auditor for the SPSO for the five years commencing 2016/17.
21. In accordance with agreed protocols and International Standards on Auditing we will be liaising with the incoming Audit Manager and new audit team as part of this transition.

Code of Audit Practice

22. A new Code of Audit Practice (the Code) applies to public sector audits for financial years starting on or after 1 April 2016. It replaces the Code issued in May 2011. The new Code outlines the objectives and principles to be followed by auditors.
23. The new Code increases the transparency of our work by making more audit outputs available on Audit Scotland's website. In addition to publishing all Annual Audit Reports, from 2016/17, Annual Audit Plans and other significant audit outputs will be available on the Audit Scotland website for all audited bodies. This is irrespective of whether the body meets in public or makes external audit reports publicly available.

Financial Management and Sustainability

24. The SPSO was constituted under Section 1 of the Scottish Public Services Ombudsman Act 2002. The Ombudsman and Accountable Officer is Jim Martin who was appointed 1 May 2009, and re-appointed on 1 May 2011 for a further of six years. The SPSO is located in Edinburgh and supported by approximately 50 staff.
25. 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.
26. From 1 April 2016, the SPSO will also act as an independent reviewer of Scottish Welfare Fund decisions. This new function is outlined in the SPSO's 2016-2020 strategic plan and adds a new strategic objective to their work. During 2015/16 the SPSO worked on preparing for this added role.

2015/16 financial position

27. The SPSO is an independent public body and receives all of its funding directly from the Scottish Parliamentary Corporate Body (SPCB). The SPSO operates against an annual cash based budget that is reviewed by the SPCB and subsequently approved by the Scottish Parliament. The budget also includes access to contingency funding. The accounts are prepared on an accruals basis but the body is funded on a cash basis and management closely monitor financial performance on a cash basis.
28. The key 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 2015/16, the SPSO recorded cash expenditure of £3.273 million. Cash drawn down from the SPCB totalled £3.273 million which was just short of the total cash budget of £3.274 million. The cash budget included contingency funding of £32,000 which was fully utilised in year.

29. At 31 March 2016 the SPSO's Statement of Financial Position shows an increase in total equity of £23,000 from £77,000 (14/15) to £100,000 (15/16). This largely is attributable to two items:

29.1. Significant increase (300% or £194,000) in income from the shared services agreement and

29.2. Significant increase (130% or £68,000) in training income.

Financial management

30. 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 of 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.

31. Based on our accumulated knowledge of the SPSO, our review of relevant papers, attendance and observation at Audit and Advisory Committee, we conclude that the SPSO has appropriate financial management arrangements in place.

Budgetary Control

32. The SPSO undertakes monthly 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 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 Financial Reporting Manual which is in force for the year for which the statement of accounts are prepared.

Financial Planning

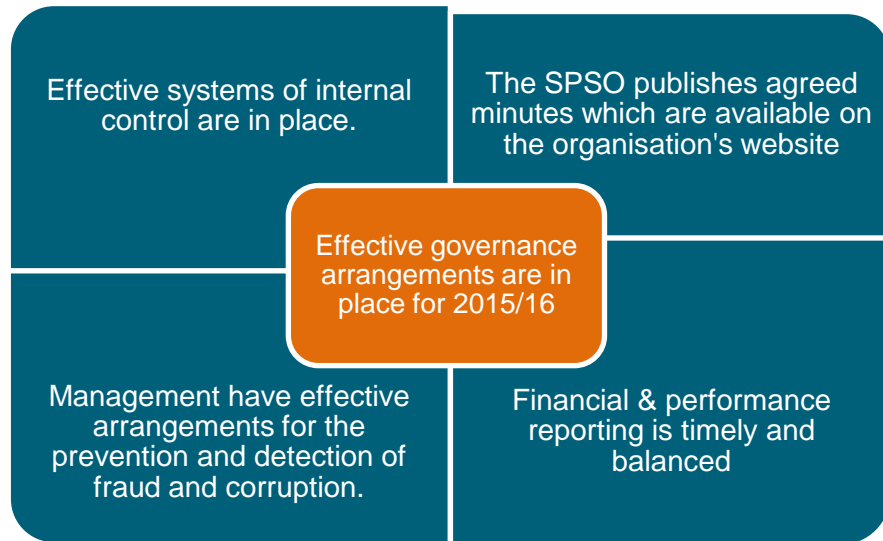
33. The SPSO receives the majority of funding from the SPCB with additional income in 2015/16 of £381,000 (14/15: £122,000) from a shared service agreement and for the provision of training. As funding from the SPCB is the key source of SPSO income, there is a greater degree of certainty over future funding streams than for some other public sector organisations who are involved in income generating activities. Therefore, the main focus for the SPSO continues to be the achievement of a balanced financial plan to ensure SPSO remains within their annual allocation from the SPCB.

34. The SPSO's strategic plan (2012-2016) covered the four year period up to 31 March 2016 and set out the SPSO's objectives and

priorities during the four year period, a timetable, costings and how they would deliver these objectives. It included a high level financial plan covering that period based on the assumed level of funding and estimated costs against each of its strategic objectives. The SPSO also produce an annual business plan which outlines the work being undertaken annually to meet its strategic aims.

35. The latest strategic plan for the next four year period (2016-2020) was published on the SPSO website in March 2016.

Governance and transparency



Corporate governance

36. The SPSO, through its Accountable Officer, is responsible for establishing arrangements for ensuring the proper conduct of the affairs of the SPSO and for monitoring the adequacy of these arrangements.
37. The Ombudsman is accountable for the finances of the SPSO to the Scottish Parliament and is the designated Accountable Officer.

38. The Ombudsman is supported by a Senior Management Team and the Audit and Advisory Committee. They hold regular meetings to consider strategic issues, risks, business plans and finances. The minutes of the its meetings are published on the SPSO website.
39. We concluded that the SPSO has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

Transparency

40. 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. The Guidance 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.

41. The SPSO seeks to apply the principles detailed within On Board to its operating procedures where this is practicable and reasonable. Whilst the SPSO Audit and Advisory Committee meetings are held in private, the minutes from the meetings are available on the SPSO website. The SPSO also publishes its Investigation Reports, Decision Reports and all its Senior Management Team minutes on the website. Overall we concluded that the SPSO is open and transparent.

Internal control

42. 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.
43. No material weaknesses in the accounting and internal control systems were identified during the 2015/16 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

44. Internal audit provides the Ombudsman as Accountable Officer and the Audit and Advisory Committee with independent assurance on the overall risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the

extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.

45. Internal audit is provided to the SPSO through a shared services arrangement with the Scottish Legal Aid Board. The 2015/16 internal audit programme of work included four audits:
- Payroll
 - Business Continuity
 - Quality Assurance Scheme review
 - Risk Management.
46. There were no significant findings raised in the reports. We reviewed these reports and considered them as part of our wider code objectives but we did not place any formal reliance on this work. Instead we applied a substantively based audit approach (detailed checking of transactions) to obtain our assurances for 2015/16.
47. An Annual Assurance Statement (opinion) was provided by the acting Head of Internal Audit to the SPSO for 2015/16 and concluded that, *“the SPSO has a generally sound framework of control, which provides reasonable assurance regarding the effective and efficient achievement of its objectives.”*

Arrangements for the prevention and detection of fraud

48. 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.

49. 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.

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. We consider whether bodies have adequate arrangements in place and have concluded that appropriate arrangements exist within the SPSO.

Best Value

Arrangements for securing Best Value

51. 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.
52. The Auditor General may require that we consider whether Accountable Officers have put in place appropriate arrangements to satisfy their 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.
53. We did not undertake any specific work in this area during 2015/16.

National performance audit reports

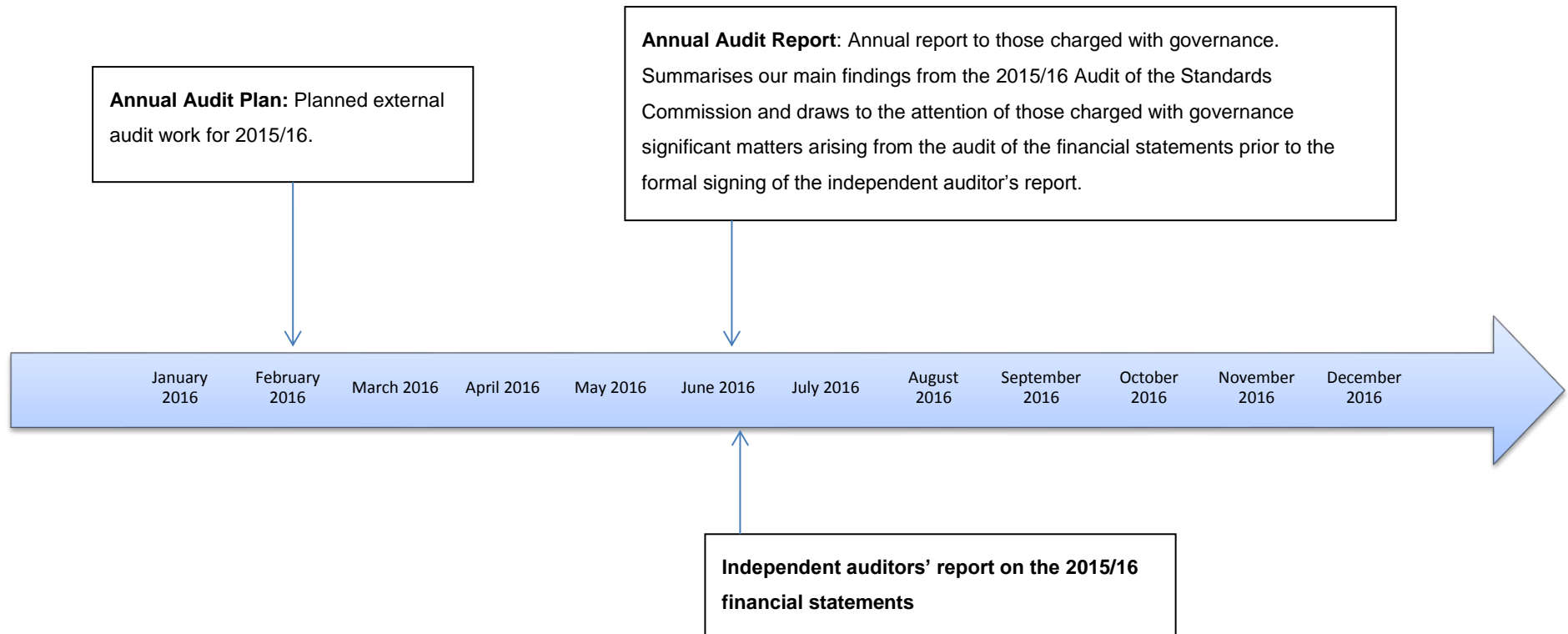
54. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, a number of reports were issued that may be of interest to the SPSO. A summary of these reports is outlined in [Appendix III](#).

Appendix I: Significant audit risks

The table below sets out the audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
<p>Financial Management - The cash budget for 2015/16 of £3.242 million is a 0.09% decrease in the cash budget from 2014/15, and 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 is identified as a risk in the management of the financial arrangements of the SPSO.</p>	<p>Financial monitoring reports reviewed against outturn by the senior management team.</p>	<p>We reviewed the financial outturn against the cash budget. In cash terms, the SPSO spent all the 2015/16 cash funding provided by the SPCB. They did however, underspend on an accruals basis due to an increase in shared services income and training income from prior years.</p>
<p>Data Security - SPSO reported that there were no significant lapses in data security during 2014/15 but highlighted the risk of breaches in data security by stakeholder organisations due to the nature of complaints and information required by SPSO.</p>	<p>The risk is being managed by SPSO's data protection officer.</p>	<p>We discussed lapses in security with key staff and found no instances of any breaches. Findings from an ICO investigation concluded no breaches in data security.</p>

Appendix II: Summary of local audit reports 2015/16



Appendix III: Summary of Audit Scotland national reports 2015/16

