



## **Scottish Public Services Ombudsman**

Report on the 2008-09 Audit

**15 September 2009**

<b>Contents</b>		<b>Page</b>
<b>1</b>	<b>Executive Summary</b>	<b>2</b>
<b>2</b>	<b>Financial Statements</b>	<b>3</b>
<b>3</b>	<b>Governance</b>	<b>6</b>
<b>4</b>	<b>Performance</b>	<b>7</b>
<b>5</b>	<b>Looking forward</b>	<b>9</b>

#### **Appendices**

<b>Appendix A - Action Plan</b>	<b>10</b>
<b>Appendix B - Communication of audit matters to those charge with governance</b>	<b>12</b>

# 1 Executive Summary

## **Introduction**

We have audited the financial statements of Scottish Public Services Ombudsman (the Ombudsman) for the 2008-09 financial year and examined aspects of performance and governance arrangements. This report sets out our key findings.

## **Financial Statements**

We intend to give an unqualified opinion on both the financial statements of the Ombudsman for 2008-09 and on the regularity of transactions undertaken during the financial year.

## **Governance**

Overall, we found that the Ombudsman's governance arrangements continue to operate well. A new Ombudsman was appointed in April 2009 and the transition was well planned and implemented. Our audit of SPSO's financial systems did not identify any high risk observations and the body continues to operate in a sound control environment.

## **Performance**

The Ombudsman has adopted the Public Service Improvement Framework (PSIF) as its strategy for achieving Best Value, and the Corporate Plan for 2009-10 incorporates Best Value as one of its strategic objectives. This represents good practice.

The Ombudsman has developed a range of performance indicators for the organisation linked to corporate plan objectives. It is likely that the Ombudsman's responsibilities will be extended by Parliament within the next year or so, and the current performance indicators will need to be revisited and extended for these new responsibilities.

## **Next steps**

Our findings and recommendations are summarised in an Action Plan (Appendix A) that accompanies this report. The Action Plan has been agreed with the Ombudsman and incorporates the management team's response to audit recommendations.

## **Acknowledgements**

We would like to take this opportunity to thank the Ombudsman and his staff for their assistance and co-operation during the audit process.

This report is part of a continuing dialogue between the Ombudsman and Grant Thornton and is not, therefore, intended to cover every matter which came to our attention. Our procedures are designed to support our audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in the Ombudsman's systems and work practices.

The report is not intended for use by third parties and we do not accept responsibility for any reliance that third parties may place on it. The report will be submitted to the Auditor General for Scotland and will be published by him on his website at [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

## 2 Financial Statements

### **Our Responsibilities**

We audit the financial statements and give an opinion on whether:

- they give a true and fair view, in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers, on the state of affairs of the Ombudsman as at 31 March 2009 and of the net expenditure, recognised gains and losses and cash flows for the year then ended
- they, and the part of the Remuneration Report to be audited, have been properly prepared in accordance with the Government Financial Reporting Manual (FRoM) and directions made thereunder by the Scottish Ministers
- in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers
- information which comprises the management commentary, included with the Annual Report, is consistent with the financial statements.

We also review the Statement on Internal Control by:

- considering compliance with Scottish Government guidance
- considering the adequacy of the process put in place by the Accountable Officer to obtain assurances on systems of internal control
- assessing whether disclosures in the Statement are consistent with the information emerging from our normal audit work.

### **Overall Conclusion**

We are able to conclude that the Ombudsman's financial statements give a true and fair view of the financial position for the period from 1 April 2008 to 31 March 2009 and that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and relevant guidance.

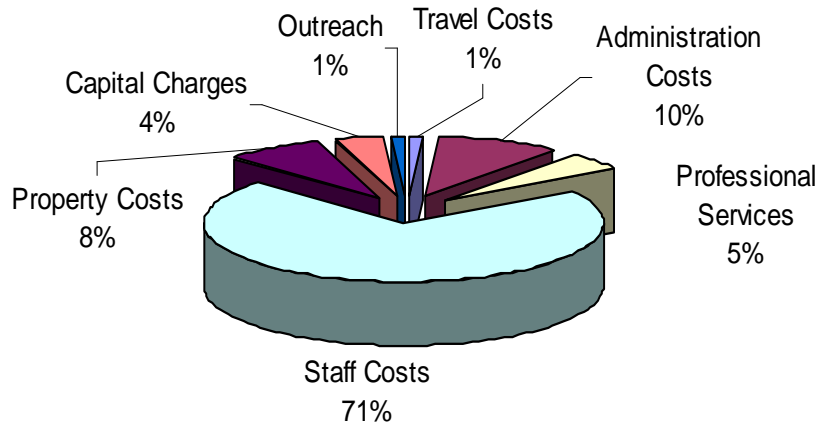
We confirm that information which comprises the management commentary, included within the Foreword to the accounts, is consistent with the financial statements.

### **Financial Performance**

The Ombudsman receives cash funding from the Scottish Parliamentary Corporate Body (SPCB) for his annual budget and manages the budget on a cash basis. Cash spending during the year (which includes expenditure on capital) was £3.275 million, which equals the cash funding received from the SPCB.

Staff costs are the main area of the Ombudsman's expenditure and account for 71% of total costs during the year. Other areas of expenditure are property costs (8%), professional services costs (5%), administration costs (10%) and other costs (6%). A more detailed analysis of the Ombudsman's 2008-09 expenditure is shown in figure 1 below:

**Figure 1 - Analysis of the Ombudsman's expenditure**



The level and nature of expenditure is similar to the prior year. The largest variances relates to staff costs which increased by £161,000 from the prior year (7%), professional services costs decreased by £69,000 (31%), and administration costs increased by £53,000 (29%).

Staff costs have risen largely due to an above inflationary pay increase for all employees (salary increases are set by the SPCB) plus contractual pay progression awards. The reduction in professional services costs reflects the reduction in demand for case work related advice compared to previous years. Finally, administration costs have risen due to an overspend on insurance caused by backdated property insurance claims which were unbudgeted, and costs carried forwards from 2007-08 associated with the delayed migration to the ScotsLite platform.

The Ombudsman incurred capital expenditure of £160,000 during the year, compared to a budget of £121,000. The overspend reflects the delay in the planned replacement of IT infrastructure in the prior year.

### **Review of systems of financial control**

As part of our 2008-09 audit, we reviewed the Ombudsman's systems of financial control covering the following key systems:

- budgetary control
- cash and treasury management
- fixed assets
- creditor payments
- payroll
- general ledger

The overall conclusion from our work is that financial systems continue to operate in a sound control environment and can be relied upon for the purposes of our audit of the financial statements. We submitted a detailed report to the Ombudsman in May 2009 which made 6 recommendations for improving internal control arrangements. All recommendations were accepted by management and none related to high risk observations.

### **Statement on Internal Control**

The Statement on Internal Control sets out the arrangements established and operated for risk identification and management, proposed future development of arrangements, and review of effectiveness of the system of internal control.

We are satisfied that the Statement complies with Scottish Government guidance, that the processes put in place by the Accountable Officer (the Ombudsman) to obtain assurances on systems of internal control are adequate and that the contents of the Statement are consistent with the information emerging from our normal audit work.

### **ISA 260: Communication of Audit Matters to Those Charged with Governance**

Our responsibilities in relation to the communication of audit matters to those charged with governance are covered in the International Standard on Auditing 260. Outcomes against the requirements of the Standard are reported in Appendix B to this report.

## 3 Governance

### **Introduction**

Sound corporate governance is central to demonstrating Best Value, and incorporates the way in which an organisation manages its business, determines strategy and objectives and goes about achieving those objectives. It is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation. Good governance means:

- focusing on the organisation's purpose and on outcomes for citizens and service users
- performing effectively in clearly defined functions and roles
- promoting values for the whole organisation and demonstrating the values of good governance through behaviour
- taking informed, transparent decisions and managing risk
- developing the capacity and capability of the governing body to be effective
- engaging stakeholders and making accountability real.

As part of our 2008-09 audit we reviewed the Ombudsman's corporate governance arrangements against best practice within the Scottish Public Finance Manual.

### **Budgetary Control**

We found that the Ombudsman has sound arrangements in place for budgetary control. Spend against budget is closely monitored at Executive Board Meetings. Monthly 'actual v budget' reports are prepared and forwarded to the Advisory Audit Committee with internal commentary explaining material variances. Any additional funding required over and above the allocated budget requires separate authorisation.

### **Internal Audit**

The Ombudsman has entered into a shared services arrangement with the Scottish Legal Aid Board for the provision of internal audit services. This has resulted in an improvement in the overall standard of governance within the Ombudsman's office. We have been able to place some reliance on the work of internal audit during the year for the purposes of our audit, particularly with regard to their review of the case management system, payroll and human resources.

### **Audit Advisory Committee**

The Scottish Government published its handbook, 'Guidance for audit committee members in the core Scottish Government', on 8 August 2008. The SPSO's Audit Advisory Committee (AAC) discussed the handbook guidance at its meeting in August 2008 and, in early 2009, held a training session led by the chair of the Audit Committee of the Scottish Legal Aid Board. The AAC intends to formally assess its performance against the handbook guidance at its next meeting later in 2009 and will refresh this assessment every three years.

We are satisfied that the AAC's current operating practice meets the majority of good practice expectations outlined in the handbook. We will undertake a further review of the AAC's compliance with the handbook following completion of the self-assessment process.

## 4 Performance

### Introduction

Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. As part of our annual audit we are required to plan reviews of aspects of the arrangements to manage performance, as they relate to economy, efficiency and effectiveness in the use of resources.

As Accountable Officer, the Ombudsman has a duty to ensure public resources are used economically, efficiently and effectively. Since April 2002 there has also been a duty on Accountable Officers 'to ensure arrangements are in place to secure Best Value.'

### Best value

During 2008-09 the Ombudsman implemented the Public Services Improvement Framework (PSIF) in developing and co-ordinating its corporate planning activity. The PSIF provides a robust corporate planning tool which incorporates much of the good practice expectations set out in the Scottish Government's 'Best Value' guidelines document.

The Ombudsman completed a self-assessment checklist as part of the PSIF implementation process which confirmed that corporate planning arrangements are well developed. The areas identified for improvement from the self-assessment process have been incorporated as 'areas for action' in the 2009-10 Business Plan.

### Performance

Overall, performance outcomes for 2008-09 were mixed.

The number of contacts received by the Ombudsman during 2008-09 showed a slight decrease on the prior year to 4,118 from 4,197 (around 2%). However, there was a change in the make-up of the contacts and the Ombudsman received 535 more complaints and 614 fewer enquiries than in the prior year. This represents an overall increase in the workload of the Ombudsman as complaints generally take longer to investigate and resolve than enquiries.

A higher number of cases were closed during the 2008-09 year in an effort to reduce the number of old cases as follows:

- 2,875 cases were closed in 2008-09 compared to 2,953 in 2007-08 (a decrease of 3%)
- 390 cases were investigated and reported to the Scottish Parliament in 2008-09, an increase of 24% on the year before
- the backlog of 'open cases' reduced from 922 on 1 April 2007 to 444 on 1 April 2008, but increased again slightly by 1 April 2009 to 500 (inclusive of 47 linked cases now being worked as one case)
- the number of open cases over 12 months old on 1 April 2009 was 56 compared to 153 on 1 April 2008.



In April 2007, the Ombudsman set three casework key performance indicators (KPIs) for the organisation. During the 2008-09 financial year, as in 2007-08, the Ombudsman met fully only one of these key targets. A summary of performance against each KPI is shown in Table 1 below:

**Table 1: 2008-09 Comparison of performance against target**

Key Performance Indicator	Target	2008-09 Outturn
Cases closed at Step 1 or Progressed to Consideration within 2 weeks	95%	99%
Total cases at consideration or progressed to investigation within 14 weeks	80%	70%
Total cases closed at investigation within 52 weeks	60%	26%

The target for 'performance in closing cases at investigation within 52 weeks' has proved particularly difficult for the Ombudsman to meet due to the impact of clearing the backlog of older and more complex cases. The Ombudsman carried out a review of corporate plan objectives following his appointment and revised KPI's which more accurately reflect current casework trends have been set for 2009-10 onwards following this review. The new KPI's will be supported by the recently introduced caseload management system which should lead to improved efficiency and case management performance.

It is likely that the Ombudsman's responsibilities will be extended by Parliament within the next year or so, and the current performance indicators will need to be revisited and extended for these new responsibilities and the Ombudsman is working towards appropriate measures in preparation for this.

## 5 Looking forward

### **Financial position**

The impact of the economic recession on public sector finances is likely to lead to a reduction in public sector funding for the period from 2010-11 and may lead to an increase in the number of enquiries and contacts to the Ombudsman. It will become increasingly important for all public bodies to demonstrate economy, efficiency, effectiveness and Best Value in their operations and the Ombudsman should ensure his Office has effective plans in place to address future financial pressures.

### **Public sector reform**

The recent review of Commissioners and Ombudsman by the Scottish Parliament has brought forward proposals for consolidation of existing Commissioner and Ombudsman bodies. There are two pieces of legislation currently being considered in Parliament. One of these could significantly increase the Ombudsman's responsibilities as the work of the Scottish Prison Complaints Commission and other bodies may be amalgamated into the SPSO. This is likely to require restructuring in all areas including IT, premises and staffing.

In addition the recent Public Sector Reform bill has been brought forward to improve overall scrutiny arrangements within the public sector. These reviews are likely to have a significant impact on the operations of the Ombudsman including closer working arrangements between scrutiny bodies more generally. The Ombudsman has already begun to consider formally how his Office will take forward the recommendations from these reviews.

### **International Financial Reporting Standards**

All public sector bodies will be required to prepare accounts on the basis of International Financial Reporting Standard (IFRS) for accounting periods from 1 April 2009. In preparing for this, the Ombudsman re-stated the 2007-08 balance sheet under IFRS and our review confirmed that an accrual for employee benefits would represent the only substantive change to the Ombudsman's accounts.

The Ombudsman will, however, be required to prepare 2008-09 full IFRS 'shadow accounts' by end November 2009 in compliance with the Scottish Government's timetable and should ensure it has effective arrangements in place to prepare full IFRS based 2009-10 accounts. In particular, this will require a review of the format of accounts and accounting policies and disclosures.

## Appendix A - Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
<b>Performance</b>					
1	The Ombudsman carried out a review of corporate plan objectives following his appointment and revised KPI's have been set for 2009-10 onwards.	Low	The new Ombudsman should ensure that new KPI's will be developed as his responsibilities change.	The Ombudsman has already begun work on this.	Will be set once new responsibilities are finalised.
<b>Financial position</b>					
2	The impact of the economic recession on public sector finances is likely to lead to a reduction in public sector funding for the period from 2010-11.	Medium	The Ombudsman should ensure his Office has effective plans in place to address future financial pressures.	Agreed. As part of the normal annual budgeting process	September 2009

## Appendix A - Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
<b>Public sector reform</b>					
3	The recent review of Commissioners and Ombudsman by the Scottish Parliament recommends closer working arrangements between Commissioners and Ombudsman more generally.	Medium	The Ombudsman should formally consider how his office will take forward the recommendations from the Scottish Parliament's recent review.	The Ombudsman has already begun work on this.	March 2010
<b>IFRS</b>					
4	The Ombudsman is required to prepare 2008-09 full IFRS 'shadow accounts' by end November 2009 and should ensure it has effective arrangements in place to prepare full IFRS based 2009-10 accounts.	Medium	The Ombudsman should review arrangements for complying with the Scottish Government's timetable for re-stating the 2008-09 accounts and preparing 2009-10 accounts under IFRS.	Agreed.	November 2009

## Appendix B - Communication of audit matters to those charged with governance

### ISA 260 – Communication of audit matters to those charged with governance

Under ISA 260, we are required to consider matters of governance interest that arise from the audit of the financial statements and communicate them with those charged with governance. The areas considered are as follows:

- a) Relationships that may bear on Grant Thornton’s independence and the integrity and objectivity of the audit engagement lead and audit staff.
- b) The overall approach to the audit including any limitations thereon, or any additional requirements.
- c) The selection of, or changes in, significant accounting policies and practices that have, or could have a material effect on the entity’s financial statements.
- d) The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements.
- e) Audit adjustments, whether recorded or not by the entity that have, or could have a material impact on the entity’s financial statements.
- f) Those uncorrected misstatements aggregated by the auditor during the audit that were determined by management to be immaterial both individually and in aggregate to the financial statements as a whole.

### Key Findings

We summarise our key audit findings in relation to the above areas.

Ref	Key Messages
A: Independence	<p>We are able to confirm our independence and objectivity as auditors and note the following:</p> <ul style="list-style-type: none"> <li>• we are independently appointed by Audit Scotland</li> <li>• we comply with the Auditing Practices Board’s Ethical Standards</li> <li>• we have not performed any non Code of Audit Practice (Code) or advisory work during the year.</li> </ul>

## Appendix B - Communication of audit matters to those charged with governance

Ref	Key Messages
B: Approach to the audit	<p>Our approach to the audit was set out in our 2008-09 audit plan. We have planned our audit in accordance with International Auditing Standards and the Code. Other key factors to highlight include:</p> <ul style="list-style-type: none"> <li>• we consider the materiality of items in the financial statements both in determining the approach to audit them and in determining the impact of any errors</li> <li>• we have been able to place appropriate reliance on the key accounting systems operating at the Ombudsman's office for final accounts audit purposes only.</li> </ul>
C: Accounting policies and practices	<p>We consider that the Ombudsman has adopted appropriate accounting policies in the areas covered by our testing. Accounting policies adopted were in accordance with the Government Financial Reporting Manual (FReM).</p> <p>The Ombudsman has considered and confirmed the organisation remains a going concern. The Ombudsman is asked to confirm this through the Letter of Representation.</p>
D: Material risks and exposures	<p>The Ombudsman has considered and confirmed that his office has no material risks and exposures which should be reflected in the financial statements. The Ombudsman is asked to confirm this in the Letter of Representation.</p>
E: Audit adjustments and unadjusted errors	<p>We identified several adjustments that management subsequently processed. There were no material errors that were not adjusted in the financial statements. See the following tables.</p>

## Appendix B - Communication of audit matters to those charged with governance

### Accounting Issues:

#### Summary of adjusted audit differences

	Operating cost statement		Balance Sheet	
	Dr £'000	Cr £'000	Dr £'000	Cr £'000
<b>Adjustments affecting reported results</b>				
Understatement of depreciation on leasehold improvements	8			(8)
Debit balances on credit ledger			4	4
Understatement of cost of capital	10			(10)
Reallocation of intangible fixed asset additions from tangible fixed asset additions			106	(106)

#### Summary of unadjusted audit differences

There are no unadjusted differences to report.