

Scottish Public Services Ombudsman

Report on the 2007-08 Audit

31 August 2008

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1 Executive Summary

Introduction

We have audited the financial statements of the Scottish Public Services Ombudsman (the Ombudsman) for the 2007-08 financial year and examined aspects of the Ombudsman's 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 2007-08 and on the regularity of transactions undertaken during the financial year. During the year, the Ombudsman incurred resource expenditure of £3.114 million. The Ombudsman manages her budget on a cash basis, however, and cash spending (which includes expenditure on capital) of £3.034 million during the year was slightly below the £3.099 million cash funding received from the Scottish Parliamentary Corporate Body (SPCB).

Staff costs are the main area of the Ombudsman's expenditure and account for 72% of total costs during the year. Staff costs increased during the year as the Ombudsman's Office was restructured and five more staff were employed in line with corporate plan objectives. Other areas of expenditure are property costs (7%), professional services costs (7%), office management costs (6%), capital charges (3%) and other costs (5%).

The Ombudsman incurred capital expenditure of £30,000 during the year, compared to a budget of £75,000. The underspend reflects the delay in the planned replacement of IT infrastructure and the case management system.

The Ombudsman's draft financial statements and supporting working papers were presented for audit in accordance with the agreed timetable and were of a high standard. This has meant that few audit adjustments were required to be made to the accounts.

Governance

Overall, we found that the Ombudsman's governance arrangements continue to operate well. The Advisory Audit Committee and Executive Board meetings are used to monitor the organisational risk register, financial performance and progress against the Strategic and Operational Plans.

The Ombudsman set up a cost-effective shared services arrangement with the Scottish Legal Aid Board during the year for the provision of internal audit services. We anticipate that this arrangement will significantly improve governance arrangements going forward.

Performance

Progress has been made to improve performance management arrangements at the Ombudsman's office during the financial year. The Ombudsman's Strategic and Operational Plans have been developed and provide a good basis to assess performance in the future. The Ombudsman has also reviewed and improved her arrangements for performance and risk management during the financial year.

The number of enquiries and complaints received by the Ombudsman during 2007-08 showed a small decrease on the previous year (around 1%), however, the Ombudsman dealt with more enquiries and cases, undertook more investigations and reduced the backlog of work during the year.

In April 2007, the Ombudsman set three casework related key performance indicators (KPIs) for her office. At the end of the 2007-08 financial year one of these was met in full, one was 1% below target and there was a trend of performance improvement for all three of the indicators throughout the year.

On the third KPI, only 31% of the cases closed in 2007-08 at investigation stage were closed within 1 year, against a target of 60%. This KPI is proving particularly hard to meet for the Ombudsman due to the impact of clearing the backlog of old cases that were already over the 12 month target at the start of the year. This situation is expected to continue into the 2008-09 financial year.

The Ombudsman does not yet have a formal process in place for Best Value, although steps have been taken to integrate the principles of Best Value within the 2007-08 Business Plan. As noted above, key performance indicators have now been developed and steps have been taken to integrate Best Value in the business planning process. We will continue to monitor the Ombudsman's progress in developing Best Value arrangements for her organisation.

Looking Forward

In June 2008, the Ombudsman announced her intention to stand down at the end of March 2009. The Ombudsman is a Crown appointment made on the recommendation of Parliament. We note that the Ombudsman operates in her role in a personal capacity and, as a result, all contracts for the Ombudsman's office are made personally by the Ombudsman. The management of these contractual matters will require careful consideration during the 2008-09 financial year to ensure the operations of the Ombudsman's office are not interrupted.

The Way Forward

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 Executive Board's response to audit recommendations.

The report includes some specific recommendations to strengthen internal controls. It is the responsibility of the Ombudsman to decide the extent of the internal control system appropriate to the organisation.

Acknowledgements

We would like to take this opportunity to thank the Ombudsman and her 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 on Audit Scotland's website at www.audit-scotland.gov.uk.

Grant Thornton UK LLP

August 2008

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 2008 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 (FReM) and directions made thereunder by the Scottish Ministers; and
- 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.

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; and
- 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 2007 to 31 March 2008 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.

Standard of accounts and supporting papers

The Ombudsman's draft financial statements and supporting working papers were presented for audit in accordance with the agreed timetable and were of a high standard. This meant that few audit adjustments were required to be made to the accounts.

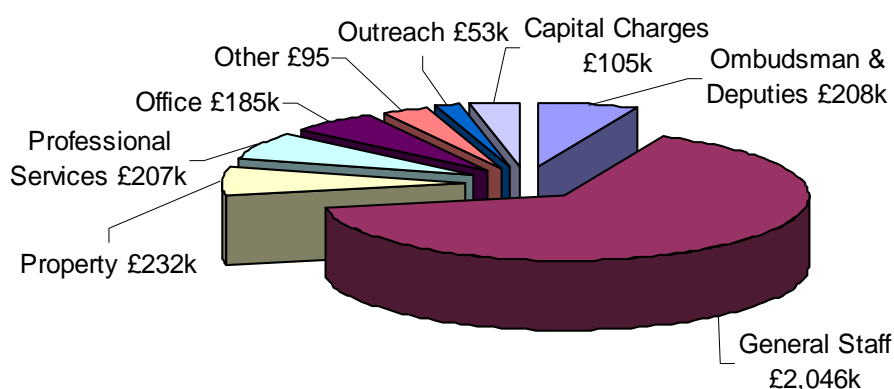
Financial Results

During the year, the Ombudsman incurred net resource expenditure of £3.114 million against a budget of £3.024 million representing an underspend of 3% of budget. Expenditure on general office running costs, property costs and training costs account for the majority of the underspend.

The Ombudsman receives cash funding from the Scottish Parliamentary Corporate Body (SPCB) for her annual budget and manages her budget on a cash basis. Cash spending during the year (which includes expenditure on capital) was £3.034 million, slightly below the £3.099 million cash funding received from the SPCB.

Staff costs are the main area of the Ombudsman's expenditure and account for 72% of total costs during the year. Staff costs increased during the year as the Ombudsman's Office was restructured, and six more staff were employed in line with corporate plan objectives. Other areas of expenditure are property costs (7%), professional services costs (7%), office management costs (6%), capital charges (3%) and other costs (5%). A more detailed analysis of the Ombudsman's 2007-08 expenditure is shown in figure 1 below:

Figure 1 - Analysis of the Ombudsman's expenditure



Source: SPSO 2007-08 Annual Accounts

The Ombudsman incurred capital expenditure of £30,000 during the year, compared to a budget of £75,000. The underspend reflects the delay in the planned replacement of IT infrastructure and the case management system. It is now anticipated that the Ombudsman will procure a new case management system jointly with the Scottish Legal Complaints Commission during the 2008-09 financial year.

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. There are no material misstatements in the accounts that we are required to draw to the attention of the Ombudsman, however, we have reported some minor errors for completeness. Some minor adjustments were made also to presentation and disclosure within the accounts during the audit. Outcomes against the requirements of the Standard are reported in Appendix C 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; and
- engaging stakeholders and making accountability real.

As part of our 2007-08 audit we reviewed the Ombudsman's corporate governance arrangements against best practice within the Scottish Public Finance Manual.

Overall Conclusion from our 2007-08 audit

Overall, we found that the Ombudsman's governance arrangements generally operate well. The Advisory Audit Committee and Executive Board meetings are used to monitor organisational risk, financial and operational performance and progress against the operational plan.

The 2007-08 financial year was significant for the SPSO, following the end of the terms of office of three Deputy Ombudsmen and the subsequent appointments of a Director of Investigations and a Director of Policy and Development. The new management arrangements appear to have bedded in well and helped to streamline communication and better co-ordinate activity within the organisation.

Internal audit

The Ombudsman set up a shared services arrangement with the Scottish Legal Aid Board during the year for the provision of internal audit services. This arrangement will significantly improve the overall standard of governance within the Ombudsman's office going forward. We note that internal audit was not operational for most of the 2007-08 financial year, and this has prevented us from placing reliance on their work for our 2007-08 audit.

Personal liability

The Ombudsman and a number of Commissioner bodies sought legal advice during the financial year in relation to the legal status of officeholders, and their personal liability status. In this respect, the legal status of the Ombudsman reflects that for Commissioners more generally.

Some of the advice received suggests that there may be no distinction between the person who holds the office and the role of the officeholder (in this case the Ombudsman). The Ombudsman is, therefore potentially the personal employer of her staff and acts on a personal basis when entering into contracts such as the lease of the office building.

In June 2008, the Ombudsman announced her intention to stand down at the end of March 2009. The Ombudsman is a Crown appointment made on the nomination of the Scottish Parliament. The appointment of the new Ombudsman will be administered by the Scottish Parliamentary Corporate Body (SPCB).

As noted above, the Ombudsman potentially operates in her role in a personal capacity and, as a result, all contracts for the Ombudsman's office (covering the employment of staff, leases, supplies and services contracts) are potentially made personally by the Ombudsman. The management of these contractual matters will require careful consideration during the 2008-09 financial year to ensure the operations of the Ombudsman's office are not interrupted when the existing Ombudsman leaves office.

Action Plan Point 1

We also note that the Ombudsman will be the Accountable Officer for the whole period of the 2008-09 financial year, but will not be in office at the time the financial statements require to be signed. This may impact on the approval process for the 2008-09 accounts.

Action Plan Point 2

Follow up of prior year recommendations

The Ombudsman has made good progress in implementing recommendations made in our report on the 2006-07 audit. Of the six recommendations made, four have been fully implemented, one is ongoing and one has not yet been implemented in full.

The outstanding recommendation relates to the development of a framework for monitoring and reporting on Best Value and efficiency within the organisation.

A summary of progress in implementing prior year recommendations is contained at Appendix B.

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.

Performance Management

The Ombudsman's Business Plan translates the Strategic Plan into specific actions and expected outcomes for the current year. Executive Board meetings are used to ensure that the annual budget is allocated as effectively as possible. Staff planning arrangements are the key mechanism used to match resources to the plans.

Good progress was made in developing performance management during 2007-08. In particular, the Ombudsman improved arrangements for monitoring and reporting contacts made by telephone. This has helped the Ombudsman to better capture overall activity and to improve classification and recording of the workload of the organisation.

The number of enquiries and complaints received by the Ombudsman during 2007-08 showed a slight decrease on the prior year (around 1%). However, the Ombudsman dealt with more enquiries and cases, undertook more investigations and reduced the backlog of work during the year as outlined below:

- 4,661 enquiries and complaints were dealt with in 2007-08, an increase of 10% on the year before;
- 390 cases were investigated and reported to the Scottish Parliament in 2007-08, 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, a decrease of 52%.

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

Table 1: 2007-08 Comparison of Performance against target

Key Performance Indicator	Target	2007-08 Outturn
Cases closed at Step 1 or Progressed to Consideration within 2 weeks	95%	95%
Total cases at consideration or progressed to investigation within 14 weeks	80%	79%
Total cases closed at investigation within 52 weeks	60%	31%

Performance in closing cases at investigation is proving particularly hard to meet for the Ombudsman due to the impact of clearing the backlog of old cases, which is expected to continue into the 2008-09 financial year.

Action Plan Point 3

Best value

The Ombudsman's office is relatively small, with limited management capacity and Best Value arrangements should be proportionate to the size and scale of the Ombudsman's operations. The Ombudsman's current approach to Best Value is restricted to monitoring efficiency in operations and developing strategic planning and performance management arrangements.

In our 2006-07 report, we recommended that the Ombudsman should set out a more formal framework for monitoring and reporting on the achievement of Best Value. The Ombudsman has been considering how best to do this during the year, but has not yet fully set out a framework for applying Best Value principles within the organisation.

Action plan point 4

**Grant Thornton UK LLP
August 2008**

Appendix A - Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
Governance					
1	The management of contracts made personally by the Ombudsman will require careful consideration during the 2008-09 financial year to ensure the operations of the Ombudsman's office are not interrupted when the Ombudsman leaves office.	High	The Ombudsman, working with the SPCB, should ensure adequate arrangements are in place for the continued operation of her office in the event of her departure.	Agreed. The SPSO are working with SPCB, as part of the appointment process, to ensure adequate arrangements are in place in time for her demitting office in March 2008.	February 2009
2	The Ombudsman will be the Accountable Officer for the whole period of the 2008-09 financial year, but will not be in office at the time the financial statements require to be signed.	Medium	The Ombudsman, working with the SPCB, should ensure adequate arrangements are in place for signing the 2008-09 financial statements.	Agreed. As above.	February 2009

Appendix A - Action Plan

No	Finding	Risk	Recommendation	Management Response	Implementation date
Performance					
3	During the 2007-08 financial year the Ombudsman met fully only one of the three key performance indicator targets set for the organisation.	Medium	<p>The Ombudsman should review the number and type of KPIs currently set for the organisation to ensure they fully reflect organisational performance.</p> <p>The Ombudsman should set out a clear plan outlining how, and by when, the organisation will meet KPI targets where performance is currently below target.</p>	<p>Agreed. This is a 2008-09 quarter 2 business objective.</p> <p>Agreed. This forms a part of the quarter 2 business objective set out above.</p>	September 2008
4	The Ombudsman has not yet established a formal approach to Best Value although steps have been taken to integrate the principles of Best Value within the 2007-08 Business Plan.	Medium	The Ombudsman should set out a more formal framework covering how she intends to measure, monitor and report on the achievement of Best Value and efficiency in the management her office going forward.	Agreed. This is a 2008-09 quarter 4 business objective.	March 2009

Appendix B - Follow up review

No	Finding	Risk	Recommendation	Management Response and Implementation Date	Position at July 2008
Financial Statements					
1	The Ombudsman does not operate with an internal audit function.	Medium	The Ombudsman and Audit Advisory Committee should take steps to establish an internal audit function.	Agreed. The Terms of Reference for the Audit Advisory Committee (AAC) state that the AAC will advise on Internal Audit arrangements. Implementation Date: Quarter 3, 2007-08	Implemented The Ombudsman has agreed a shared service arrangement with the Scottish Legal Aid Board for the provision of internal audit services.
2	The Ombudsman has not taken account of indexation in the calculation of the fixed assets balance within the financial statements.	Medium	The Ombudsman should ensure that indexation is applied to fixed asset balances in future years to ensure that the current cost of assets is reflected in the financial statements.	Agreed. An adjustment has now been made within the 2007/08 accounts. Implementation Date: Immediate	Implemented

Appendix B - Follow up review

No	Finding	Risk	Recommendation	Management Response and Implementation Date	Position at July 2008
3	The Ombudsman has recently established an independent Audit Advisory Committee with newly appointed non-executive members. Specific training needs for the new members have not yet been identified.	Medium	The Ombudsman should ensure that Audit Advisory Committee members are given sufficient information and training to support them in their role.	The members of the Audit Advisory Committee were selected on the basis of their significant knowledge and current experience of governance of public service bodies. Following on from the comprehensive induction programme, the Audit Advisory Committee will be consulted with at their next meeting regarding ongoing training requirements. Implementation Date: August 2007	Implemented
4	Risks are not currently allocated to a responsible owner.	Low	The Ombudsman should assign ownership of risks to responsible owners to ensure that action to mitigate the risks is effectively managed.	Agreed. Within the Scheme of Control, the responsibility for managing risk sits with the Executive Board. The Head of Services is responsible for maintaining the risk register. The risk register is currently being developed further to include named responsible individuals for specific risk areas. Implementation Date: Quarter 2, 2007-08	Implemented

Appendix B - Follow up review

No	Finding	Risk	Recommendation	Management Response and Implementation Date	Position at July 2008
5	The Ombudsman is required to comply with EU tendering regulations in the award of contracts where applicable.	High	The Ombudsman should ensure that EU tendering regulations are followed in the awarding of the contract for their ICT infrastructure upgrade and replacement and complaints handling software.	The SPSO procurement policy, which would be used for the basis of any procurement, clearly outlines the need to follow EU tendering regulations. Implementation Date: as appropriate.	Ongoing The nature of the tender for IT systems has altered since this recommendation was made.
6	The Ombudsman has not yet established a formal approach to Best Value or efficient government although steps have been taken to integrate the principles within the 2007-08 Business Plan.	Medium	The Ombudsman should set out a more formal framework covering how she intends to measure, monitor and report on the achievement of Best Value and efficiency in the management her office going forward.	Agreed. This is set as an objective within the 2007-08 business plan. Implementation Date: Quarter 3, 2007-08	Not implemented Further work will be undertaken as part of the development of the strategic plan.

Appendix C- 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; and
- 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	Area	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"> • we are independently appointed by Audit Scotland; • we comply with the Auditing Practices Board’s Ethical Standards; and • we have not performed any non Code of Audit Practice (the Code) or advisory work during the year.

Appendix C- Communication of audit matters to those charged with governance

Ref	Area	Key Messages
b	Approach to the audit	<p>Our approach to the audit was set out in our 2007-08 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"> • 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; • 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; and • we have been able to place reliance on the work of internal audit in respect of the key accounting systems.
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 (FRM).</p> <p>The Ombudsman has considered and confirmed her office 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 her 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 minor disclosure amendments and reclassifications to improve the presentation of the accounts. These are outlined below. There were no material errors that were not adjusted in the accounts.</p>

Appendix C- Communication of audit matters to those charged with governance

Summary of adjusted audit differences

There are no material adjusted differences to report.

Summary of unadjusted audit differences

This is a summary of audit differences which have not been adjusted in the financial statements.

	Income & Expenditure account		Balance Sheet	
	Dr £s	Cr £s	Dr £s	Cr £s
2008-09 transaction wrongly accrued into 2007-08		568	568	
Incorrect asset classification			1,989	1,989

The unadjusted differences noted above are not material to the financial statements.