

## Key Issues Memorandum

Scottish Public Services Ombudsman

For the year ended 31 March 2010

15 July 2010

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To the Scottish Public Services Ombudsman (SPSO), the Audit and Advisory Committee and the Auditor General for Scotland.

The purpose of this memorandum is to highlight the key issues affecting the results of the SPSO and the preparation of the financial statements for the year ended 31 March 2010. It is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

We take responsibility for this memorandum, which has been prepared on the basis of the limitations set out in 'The small print'.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the Ombudsman and his staff during our audit.

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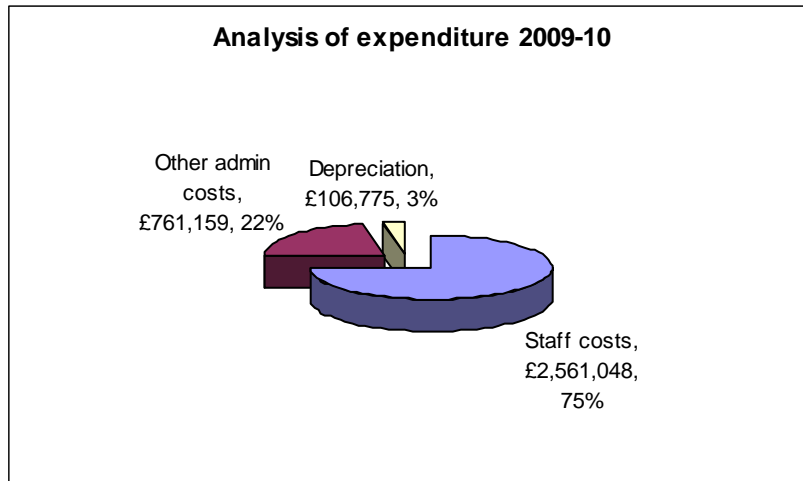
# 1 Executive summary

<b>Financial reporting issues</b>	
Audit opinion	<ul style="list-style-type: none"> <li>We intend to give an unqualified opinion on both the financial statements of the SPSO for 2009-10 and on the regularity of transactions undertaken during the financial year.</li> </ul>
Financial statements	<ul style="list-style-type: none"> <li>The draft financial statements and supporting working papers were of a high standard. This meant that only minor audit adjustments were identified from our audit.</li> </ul>
IFRS conversion	<ul style="list-style-type: none"> <li>We carried out a comprehensive review of the draft 2009-10 IFRS accounts against the requirements of the iFRM. The annual accounts are IFRS compliant.</li> </ul>
<b>Governance</b>	
Audit Scotland	<ul style="list-style-type: none"> <li>The SPSO has effective arrangements for considering Audit Scotland national performance reports.</li> </ul>
Overall governance	<ul style="list-style-type: none"> <li>The SPSO has good governance arrangements in place and the Audit and Advisory Committee operates effectively.</li> </ul>
<b>Performance and Best Value</b>	
Best Value and Performance	<ul style="list-style-type: none"> <li>The SPSO is making considerable progress against the nine strategic objectives of Best Value and has achieved most of its key performance objectives for 2009-10.</li> </ul>
Efficient Government	<ul style="list-style-type: none"> <li>The SPSO are advised to consider using Audit Scotland's good practice checklist to help identify efficiencies.</li> </ul>
<b>Looking forward</b>	
Public Sector Reform	<ul style="list-style-type: none"> <li>The SPSO is preparing well to take on its new responsibilities but must continue to plan for the significant cuts in public spending from April 2011.</li> </ul>

## 2 Financial reporting

### 2.1 Financial statements

	2010 £'000	2009 £'000
<b>Admin Costs</b>		
Staff Costs	2,561	2,334
Other admin costs	761	792
Depreciation	106	88
Operating Income	(15)	(11)
<b>Net Operating Costs</b>	<b>3,413</b>	<b>3,203</b>



### Financial Performance

The Ombudsman incurred net operating costs of £3.4 million for 2009-10, compared to £3.2 million for 2008-09 (a variance of less than 1%).

Staff costs accounted for 75% of the total expenditure. These costs were £46,000 over budget and £227,000 higher than 2008-09. The increase is due to pay increments and cost of living increases averaging 3% and severance payments made under a restructuring.

Other admin costs, which account for 22% of total expenditure, were £31,000 lower than 2008-09 and a similar amount lower than budgeted. Whilst there were increases in maintenance and IT costs, these were more than offset by planned decreases in expenditure on training, publicity and promotions and consultancy fees.

## 2.2 Financial position

	2010 £'000	2009 £'000
<b>Bank balances</b>	<b>52</b>	<b>124</b>

The Ombudsman receives cash funding from the Scottish Parliamentary Corporate Body (SPCB) for his annual budget. £3.25 million of cash funding was received in the year, compared to £3.28 million for the previous year, a reduction of £24,000.

However, the total cash requirement for 2009-10 was £3.32 million<sup>1</sup>, which is £57,000 higher than the cash requirement for 2008-09. The shortfall, which was largely as a result of meeting outstanding 2008-09 commitments of £78,000, was taken from the Ombudsman's cash reserves which stood at £124,000 at 31 March 2009 but had reduced to £52,000 at 31 March 2010. This was as a result of an agreement with the SPCB at the start of the year to reduce the level of cash reserves held. The Ombudsman is able to draw on the SPCB's contingency fund to fund additional unplanned costs, for example, legal fees. No such costs were incurred during the year.

<sup>1</sup> Source: Statement of Cash Flows - net cash outflow from operating activities and net cash outflow from investing activities.

### 3 Financial statements

#### 3.1 Findings and conclusions

The SPSO is required to produce financial statements under an Accounts Direction issued by the Scottish Ministers. The Accounts Direction requires the SPSO to prepare its financial statements in line with the accounting principles and disclosure requirements of the 2009-10 iFReM.

We audit the financial statements and give an opinion on whether they give a true and fair view. Our opinion also covers whether 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 and consider the SPSO's compliance with Scottish Government guidance, the adequacy of

the process put in place by the Accountable Officer to obtain assurances on systems of internal control and assess whether disclosures in the Statement are consistent with the information emerging from our normal audit work.

The draft financial statements and supporting working papers were presented for audit prior to the fieldwork and were of a high standard. As a result, only two audit adjustments have been recommended following the audit procedures.

We intend to give an unqualified opinion on both the financial statements of the SPSO for 2009-10 and on the regularity of transactions undertaken during the financial year.

Specific issue identified in the Audit Approach Memorandum	Auditor Response
<p><b>IFRS implementation</b>                      This is the first full year in which central government bodies are required to prepare their accounts on the basis of IFRS. The SPSO began its preparations for this process in 2008 by restating the 2007-08 balance sheet, and again in December 2009 by preparing shadow accounts for 2008-09. We reviewed and reported on the 2008-09 shadow accounts in February 2010.</p>	<p>We carried out a comprehensive review of the draft 2009-10 accounts, prepared under IFRS, against the requirements of the 2009-10 iFReM. There were some minor corrections which we have notified to management and no material errors were identified. However, in the following table, we make some recommendations to enhance disclosures to ensure full compliance with the iFReM including expanding the Foreword to provide more detail on the financial and operating performance and key challenges facing the organisation.</p>

Additional matters identified during the course of the audit	Management Response
<p>FReM Exposure Draft (10/01) has been issued regarding information to be included in the Remuneration Report. The proposals include the inclusion of the remuneration details of all senior staff from level SCS3 and above in the Remuneration Report from 2010-11. At present, the SPSO only disclose the remuneration details of the Ombudsman, as the SPSO's view is that only the Ombudsman has overall influence and control over the whole of his operations. However, this may be a narrow interpretation of the iFReM and the SPSO should consider implementing the proposals of the exposure draft in the current year as best practice.</p>	<p>Given accepted custom and practice, the current easy access to SPSO pay band data, the number of staff affected by this proposed change, and the current status of the Exposure Draft, the management will review the position once the Draft is formalized.</p>
<p>Whilst the termination payment of £83,000 is only 2% of the total expenditure, it is still a significant one-off payment and we recommend that this is disclosed as a separate line in the Staff Costs note.</p>	<p>The management have opted not to disclose details of severance payments to staff within the accounts taking into consideration the total percentage against budget involved versus potential obligations under DPA.</p>
<p><b>Aged Creditors</b>                      Duplicate invoices amounting to c.£7k were noted on the aged creditors listing. In addition, a large number of smaller balances were noted that do not represent legitimate creditors in that they have either been successfully disputed against or are no longer being actively chased by suppliers.</p> <p>Stronger controls should be put in place over recording supplier invoices and a regular 'clean up' of aged creditors should be undertaken to ensure all amounts owed to suppliers are accurately recorded.</p>	<p>The management note and agree with the recommendation made.</p>



### 3.2 Processed adjustments

The auditor is required to communicate all unprocessed adjustments, other than those considered to be clearly trivial, to the entity's management and to request that management corrects them. There were no unprocessed adjustments and all processed adjustments are set out below

Journal reference	Detail	Balance sheet		Operating Cost Statement (OCS)		Effect on OCS
		Dr	Cr	Dr	Cr	
1	DR Trade Creditors	6,750				
	CR Staff Salaries				(6,750)	(6,750)
	<i>Being duplicate invoices on aged creditors listing</i>					
2	Dr Staff costs			16,827		16,827
	CR Accruals		(16,827)			
	<i>Being error in holiday pay accrual</i>					
	Increase in expenditure	6,750	(16,827)	16,827	(6,750)	10,077

## 4 Governance

### 4.1 Introduction

Corporate governance is the system by which organisations direct and control their functions and relate to their stakeholders, 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.

### 4.2 Audit Approach

As part of our 2009-10 audit, we assessed the adequacy of the SPSO's governance arrangements against good practice standards for the public sector.

We issued our interim report in May 2010 which examined the SPSO's budgetary and financial management arrangements, preparations for the new responsibilities that the SPSO is assuming from 2010-11, and its procedures for considering Audit Scotland's national performance reports. We concluded that the SPSO was performing well in all these areas.

In addition, during our audit of the financial statements in June 2010, we carried out the following:

Specific issue identified in the Audit Approach Memorandum	Auditor Response
<p><b>Reputational risk</b>                      There was some publicity in the press during 2009 regarding a complaint made into the handling of a case by the SPSO. The complaint related to a long-running case that the Ombudsman took the decision to refer for independent review to the Local Government Ombudsman in England. Partially as a result of this review the SPSO initiated an internal review of its complaints and investigation process.</p>	<p>The SPSO aims to mitigate these risks by developing a revised quality assurance system to support revised key performance indicators.</p> <p>Furthermore there were no issues noted from our review of the Senior Management Team meeting minutes which would indicate the existence of any contingent liabilities in this regard.</p>

## 5 Performance and Best Value

### 5.1 Introduction

All public bodies in Scotland have a duty to secure Best Value and continuous improvement. The public sector is facing a period of significant financial austerity, and the SPCB has notified its supported bodies that budget cuts are likely to be in the region of 15 - 20% in real terms by 2013-14. In many areas this means that the current level of service provision is unsustainable. Public pressure to deliver services as

efficiently and cost effectively as possible means that being able to demonstrate that the organisation delivers Best Value is more important than ever.

The SPSO is in a different position to other bodies in that it is taking on significant additional responsibilities, making its budgeting and planning more complex.

Specific issue identified in the Audit Approach Memorandum	Auditor Response
<p><b>Best Value</b> The SPSO is required to operate effectively and efficiently and demonstrate a commitment to the principles of Best Value. The SPSO incorporates this as a strategic objective within the Corporate Plan.</p>	<p>The SPSO has adopted the Public Service Improvement Framework to help drive improvement and monitor performance. An initial self assessment has been supported by evidence including a satisfaction survey for all public bodies within the SPSO's jurisdiction. We note that the results of the self-assessment confirm that considerable progress is being made against the nine strategic objectives and those still in progress are being fed into the 2010-11 business plan.</p>

Specific issue identified in the Audit Approach Memorandum	Auditor Response																				
<p><b>Performance</b> The SPSO has developed a range of performance indicators for the organisation linked to corporate plan objectives.</p>	<p>The SPSO revised their Key Performance Indicators during the year so it is not possible to make direct comparisons year on year. However, we noted that SPSO have dealt with 12% more complaints in 2009-10 than in 2008-09, with the same number of staff, representing an increase in productivity. This can, in part, be attributed to the new Ombudsman's strategy to clear time-consuming, older cases by December 2009.</p> <p>The SPSO produces an annual Performance Update for stakeholders which reports on performance against a range of activities, including the key priorities for the year. The organisation also reports on key performance indicators quarterly.</p> <p>By quarter 4, 3 of the 4 KPI targets were being met showing clear progression over the course of the year, as follows</p> <table border="1" data-bbox="1079 778 2011 1054"> <thead> <tr> <th colspan="2">Key Performance Indicators</th> <th>Target</th> <th>Achieved</th> </tr> </thead> <tbody> <tr> <td>1</td> <td>Review process for enquiries and complaints - assess within 2 weeks</td> <td>90%</td> <td>94%</td> </tr> <tr> <td>2</td> <td>Close complaints that do not require an investigation report within 4 months</td> <td>80%</td> <td>79%</td> </tr> <tr> <td>3</td> <td>Cases that require an investigation report - draft report within 12 months</td> <td>90%</td> <td>67%</td> </tr> <tr> <td>4</td> <td>Cases older than 9 months at 1 April 2009 to be closed by 31 December 2009</td> <td>95%</td> <td>100%</td> </tr> </tbody> </table>	Key Performance Indicators		Target	Achieved	1	Review process for enquiries and complaints - assess within 2 weeks	90%	94%	2	Close complaints that do not require an investigation report within 4 months	80%	79%	3	Cases that require an investigation report - draft report within 12 months	90%	67%	4	Cases older than 9 months at 1 April 2009 to be closed by 31 December 2009	95%	100%
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Specific issue identified in the Audit Approach Memorandum	Auditor Response
<p><b>Efficient government</b>                      At present, the SPSO is not required to meet formal efficiency targets, but the Scottish Government will be expecting all public sector bodies to make efficiency savings and the SPSO has incorporated strategies to achieve efficiency savings within its Corporate Plan.</p>	<p>The SPSO is making preparations for its new responsibilities, including taking on the role of the prior Scottish Prison Complaints Service in October 2010. Overall, the assumption of these responsibilities should give effect to efficiencies as the Scottish Prison Complaints Service had a budget of £180k. SPSO will absorb these costs as a result of efficiencies through a staff restructure, and increasing productivity.</p> <p>In its <i>Improving Public Sector Efficiency</i> Report, issued in February 2010, Audit Scotland notes that there is scope for public sector bodies to make significantly greater improvements in efficiency than have been achieved to date, and the need to do so is increasingly pressing. The report notes that public bodies still have insufficient information on unit costs and costs related to activity levels and the quality of services. All public bodies need to understand better the relationship between costs, volume and quality of services to get improvements in productivity and reductions in cost.</p> <p>Audit Scotland has produced a good practice checklist designed to challenge and support public bodies in making efficiency improvements. This approach may help the Ombudsman identify further areas for improvement, for example by focusing service reviews to ensure that each area of the business contributes to the organisation's key priorities.</p>

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## 6 Looking forward

Whilst significant cuts in public spending will occur over the next few years, the Ombudsman will be taking on the current role of the Scottish Prison Complaints Service from October 2010, and will take on responsibility for acting as a Complaints Standards Authority and Water complaints handling function most likely during 2011.

The Ombudsman is not likely to receive additional funding from the SPCB for the Prison Complaints Service, and so can demonstrate an efficiency saving to the SPCB of c£180,000 per annum. This presents a significant challenge to the organisation to manage increased cost within budget.

There is a high risk that the increase to jurisdiction and functions is not matched by an increase in resources. Effective planning is key to ensuring that the Ombudsman can cope with all of these new functions whilst not affecting service delivery to stakeholders.

During our interim audit in May 2010, we reviewed the latest 'Complaints Improvement Project Board' paper which summarised progress made to date in preparation for these changes and explains the likely effect on the SPSO's work streams. We also discussed with the Director of Corporate Services the implications of the new responsibilities and effects on the existing services and funding.

Preparations include:

- a new staff structure has been put in place which has resulted in a reduction in two posts, one at management level and the other at senior management level

- significant efforts have been made over the past year to clear old and time consuming cases, resulting in fewer difficult cases being carried forward
- a project board is in place which has already met several times in preparation for the Complaints Standard Authority and Water complaints handling responsibilities. Timetables and areas of responsibility have been mapped out.
- the Ombudsman and the Director of Corporate Services have been discussing opportunities for shared services in accommodation, staffing and procurement with the SPCB and other supported bodies, and have identified two areas where there is opportunity to share services.

We conclude that the Ombudsman's arrangements for preparing for these new responsibilities are well-developed and are on track but we will continue to monitor progress in these key areas.

## 7 The small print

ISAUK 260 requires communication of:

- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- the form of reports expected

### Purpose of memorandum

This Key Issues Memorandum has been prepared for the benefit of discussions between Grant Thornton, the Audit and Advisory Committee and the Scottish Public Services Ombudsman (the Ombudsman).

The purpose of this memorandum is to highlight the key issues affecting the results of the Ombudsman and the preparation of the organisation's financial statements for the year ended 31 March 2010.

This document is also used to report to management to meet the mandatory requirements of International Standard on Auditing (UK & Ireland) 260.

We would point out that the matters dealt with in this report came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements of the organisation.

This memorandum has been made available to management to facilitate discussions, it may not be taken as altering our responsibilities to the organisation arising under the Code of Audit Practice.

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).

### Responsibilities of the Ombudsman, Accountable Officer and auditors

The Ombudsman is responsible for the preparation of the financial statements and for making available to us all of the information and explanations we consider necessary. Therefore, it is essential that the Ombudsman confirms that our understanding of all the matters in this memorandum is

appropriate, having regard to his knowledge of the particular circumstances.

### Clarification of roles and responsibilities with respect to internal controls

The Ombudsman is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance that he has done so.

The Ombudsman is required to review the organisation's internal financial controls. In addition, he is required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk.

The Ombudsman should receive reports from management as to the effectiveness of the systems he has established as well as the conclusions of any testing conducted by internal audit or ourselves.

We have applied our audit approach to document, evaluate and assess your internal controls over the financial reporting process in line with the requirements of auditing standards.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you.

In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

### Independence and robustness

Ethical standards require us to give you full and fair disclosure of matters relating to our independence.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

In accordance with best practice, we analyse our fees below:

	<b>£ incl VAT</b>
Grant Thornton UK LLP	20,000
Audit Scotland fixed charge	2,100
Total	22,100