



**Commissioner for
Ethical Standards in
Public Life in Scotland**
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 Commissioner for Ethical Standards in Public Life in Scotland for the period 2012/13 to 2015/16.

This report has been prepared for the use of the Commissioner for Ethical Standards in Public Life in Scotland 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

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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.
- Working papers were of a good standard and officers provided good support which enabled the audit team to complete on-site fieldwork by the planned target date.
- All presentation and disclosure issues, identified in unaudited accounts, were corrected by management in the audited financial statements.

Financial Position

- All financial targets in 2015/16 were met
- Expenditure is in line with the approved budget of £853,000.
- Financial management was found to be generally sound.

Governance & accountability

- Overall, we found the Commissioner has effective overarching and supporting governance arrangements which provide an appropriate framework for organisational decision making.

Best Value

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

Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of the Commissioner for Ethical Standards in Public Life in Scotland (the Commissioner).
2. The Commissioner for Ethical Standards in Public Life in Scotland, as the Accountable Officer, 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 his 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. Appendix IV is an action plan setting out our recommendations to address the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that the Commissioner understands the risks and has arrangements in place to manage these risks. The Audit Advisory Board should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. 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.
8. 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 Commissioner 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 Parliamentary Commissions and Commissioners etc Act 2010 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 Parliamentary Commissions and Commissioners etc Act 2010 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

9. We received the unaudited financial statements on 6 June, 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 24 June.

Overview of the scope of the audit of the financial statements

10. 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 dated March 2016.
11. 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 £10,500 and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
12. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified one key audit risk 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.

13. [Appendix I](#) sets out the audit risk identified at the planning stage and how we addressed the risk in arriving at our opinion on the financial statements.
14. 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

15. 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.
16. 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 £8,500 (1% of net operating costs of £852,000).
17. 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 £4,250 (i.e. 50% of planning materiality). We report all misstatements identified which are greater than £1,000.

Evaluation of misstatements

18. 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

19. 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.
20. Minor presentational and disclosure errors were identified within the financial statements during the course of our audit. These were discussed with relevant officers and were mostly a result of the large number of changes required by the 2015/16 FReM. 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

21. 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 Commissioner for the five years commencing 2016/17.
22. 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

23. A new Code of Audit Practice 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.
24. 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 put 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

- 25. The office of the Commissioner was created in July 2013 in succession to the Commission for Ethical Standards in Public Life in Scotland. It combines the roles of the former Public Standards Commissioner and Public Appointments Commissioner.
- 26. The Commissioner’s primary functions are to investigate complaints about the conduct of local authority councillors, members of public bodies and Members of the Scottish Parliament and to scrutinise the making of appointments by the Scottish Ministers to the boards of regulated public bodies.
- 27. The main financial objective for the Commissioner is to ensure that the financial outturn for the year is within the budget allocated by the Scottish Parliamentary Corporate Body (SPCB).

2015/16 financial position

- 28. The Commissioner is an independent public body and receives all of its funding directly from the SPCB. The Commissioner 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.

- 29. As shown in the table below, the Commissioner’s budget for 2015/16 was initially set at £811,000. During the year the Commissioner submitted an additional funding request to the Scottish Parliament to cover the costs associated with increased complaint activity. The Scottish Parliament awarded a further £37,000 as contingency funding. In October 2015, it was anticipated that additional funding would be required to develop a specification for a replacement case management system. The Scottish Parliament awarded a further £14,000 as contingency funding. In the event, £5,000 was required due to the timing of the project.

Funding 2015/16	Funding allocation (£000)	Financing from SPCB (£000)
Initial allocation	811	811
Contingency funding	37	37
Contingency funding	5	5
Total	853	853

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 Business Manager 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 of the AAB/management team provide a good level of challenge and question budget holders on significant variances.
31. Based on our accumulated knowledge of the Commissioner and our review of relevant papers, we conclude that the Commissioner has appropriate financial management arrangements in place.

Financial Planning

32. As funding from the SPCB is the Commissioner's sole source of 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 Commissioner is achieving a balanced financial plan to remain within his annual allocation.
33. The Commissioner's strategic plan (2012-2016) covered the four year period up to 31 March 2016 and included a high level financial plan covering that period based on the assumed level of funding

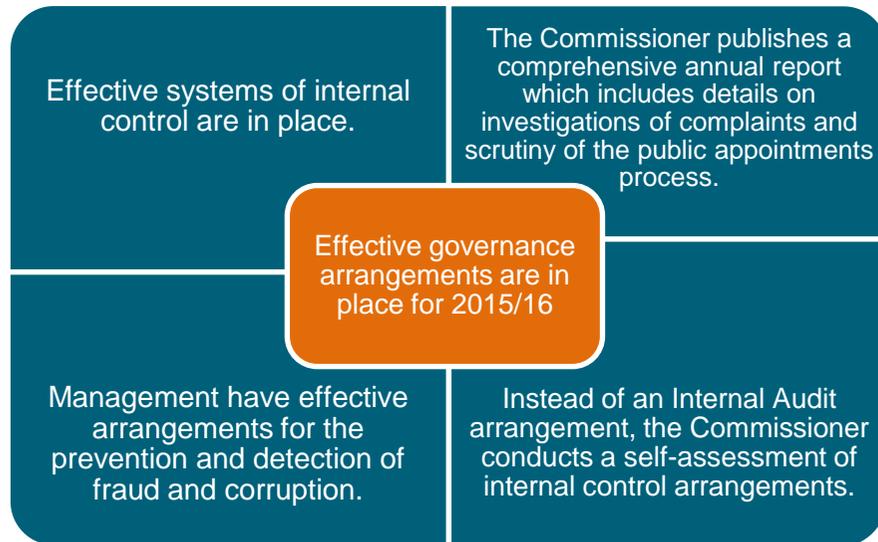
and estimated costs. The Commissioner also produces an annual business plan which outlines the work being undertaken annually to meet his strategic aims.

34. The latest strategic plan for the next four year period (2016-2020) was published on the Commissioner's website in March 2016.

Budgetary Control

35. The Commissioner 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 Commissioner 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.

Governance and transparency



Corporate governance

36. The Commissioner, as Accountable Officer, is responsible for establishing arrangements for ensuring the proper conduct of the affairs of the Commissioner and for monitoring the adequacy of these arrangements.
37. The Commissioner for Ethical Standards in Public Life in Scotland is accountable for the finances of the office of the Commissioner to the Scottish Parliament and is the designated Accountable Officer.

38. The Commissioner is supported by an Advisory Audit Board (AAB) which oversees the Commissioner's arrangements for corporate governance and provides him with assurance as to compliance. The Commissioner considers all external audit reports and ensures any issues raised are addressed.
39. We concluded that the Commissioner 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. Overall we concluded that the Commissioner is open and transparent as far as confidential considerations allow.

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. However, the extent of this work should also be informed by their assessment of risk.
43. No material weaknesses in the accounting and internal control systems were identified during the 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.
44. However audit testing revealed three instances where the Commissioner did not operate in accordance with the approved scheme of delegation. From a sample of 13 invoices:
- one invoice for £4,512.00 was signed by one member of staff instead of 2
 - one invoice for £5,340.60 was signed by an officer who was not included in the scheme of delegation
 - one invoice for £601.93 had no evidence of any authorisation.

Appendix IV– Action Plan No. 1

Internal audit

45. Due to the size of the organisation and the Commissioner’s assessment of risk, there is no arrangement for internal audit activity to be conducted. The Commissioner’s review of the effectiveness of governance arrangements is informed by:

- the work of the AAB
- reports and comments made by external auditors
- the work of the management team
- a review of the objectives in strategic and annual business plans
- review of systems and procedures in place to manage staff, finances and risks
- completion of an internal control checklist. The checklist is based upon that provided within the Scottish Public Finance Manual, and a proportionate approach has been adopted, reflecting the relatively small size and simple structure of the office.

Arrangements for the prevention and detection of fraud

46. 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.

47. In our opinion the Commissioner'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

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

Best Value

Arrangements for securing Best Value

49. 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.

50. 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 Commissioner, agree to undertake local work in this area.

51. We did not undertake any specific work in this area during 2015/16.

National performance audit reports

52. 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 Commissioner. A summary of these reports is outlined in [Appendix III](#).

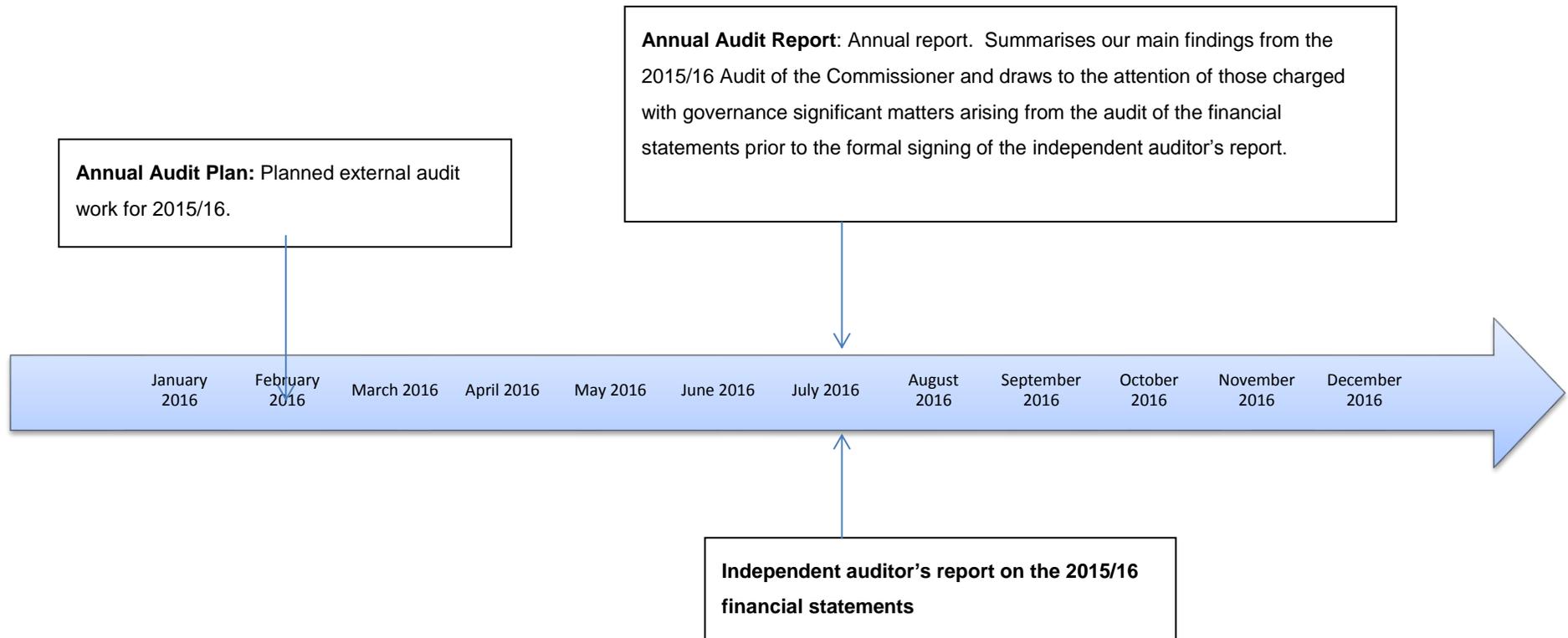
Appendix I: Significant audit risks

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.

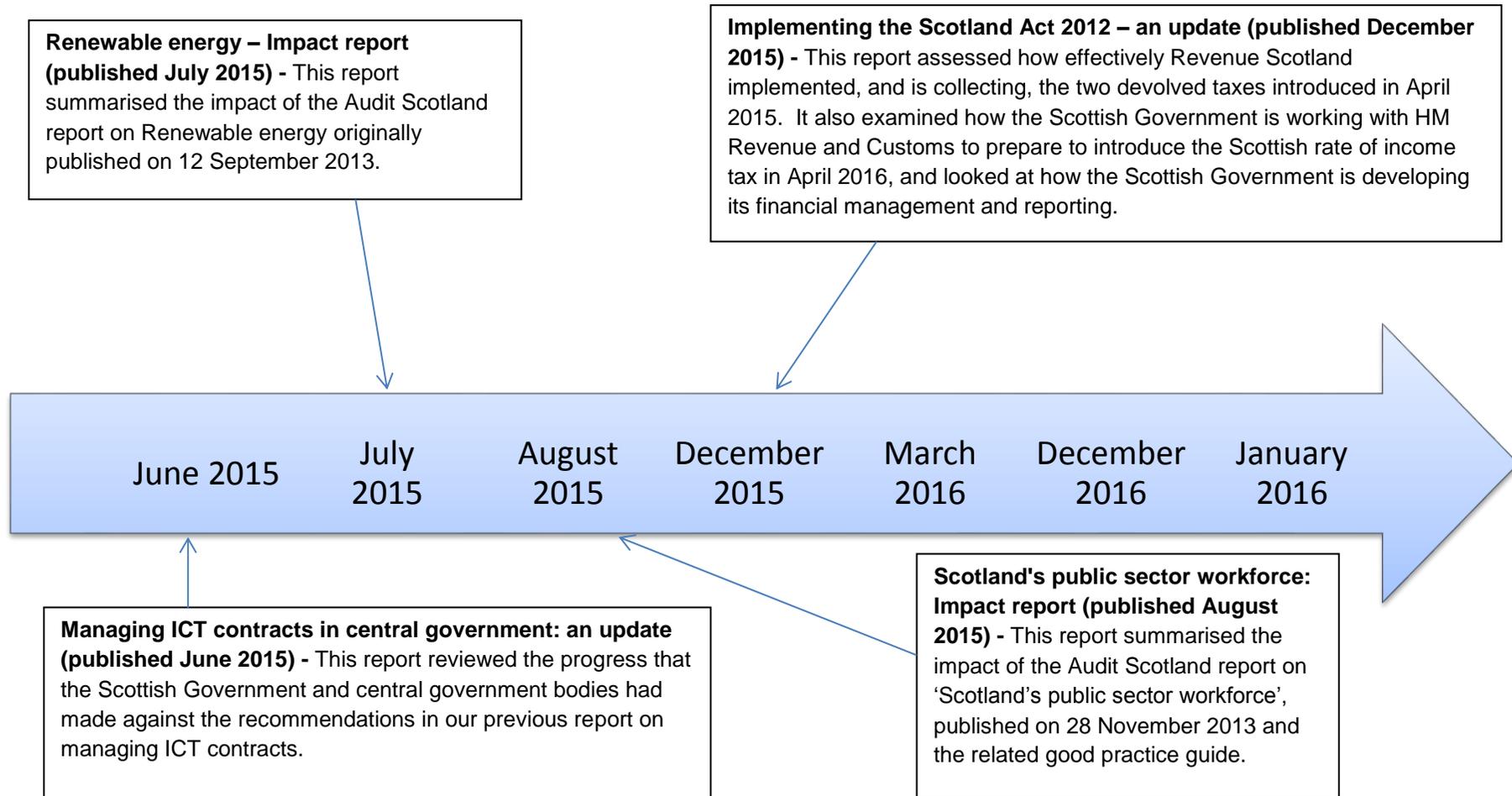
Audit Risk	Assurance procedure	Results and conclusions
<p>Financial management</p> <p>The Commissioner's budget requirements are demand led and as such it is difficult to accurately predict if the Commissioner has sufficient budget for 2015/16. The Commissioner appreciates that careful monitoring of outturn against budget will be required to ensure that sufficient funds are available to meet future liabilities and contingency funding has been requested from the Scottish Parliamentary Corporate Body.</p>	<p>We reviewed the level of expenditure incurred by year end and the in-year processes for monitoring projected spend.</p>	<p>Arrangements were put in place for contingency funding with the SPCB. £14,000 was awarded to develop a specification for a replacement case management system. In the event £5,000 was required. In February 2016 the SPCB awarded a further £37,000 to cover increased costs for investigating complaints about conduct.</p> <p>Conclusion: Satisfactory</p>
<p>Management override of controls</p> <p>ISA240 requires auditors to consider, on all audits, management's ability to manipulate accounting records and prepare fraudulent or biased statements by overriding controls that otherwise appear to be operating effectively. There is a risk of misstated accounting records.</p>	<ul style="list-style-type: none"> • We conducted substantive audit work • We ensured we 'understood the business' to consider the nature of accounting transactions • We conducted cut-off audit testing. 	<p>Satisfactory</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Presentation of accounts: The 2015/16 FReM has been extensively re-written and includes significant changes to the form and content of the annual report and accounts.</p>	<ul style="list-style-type: none"> • We delivered an information session for accounting and business managers in March 2016 which was attended by the Business manager from the Commissioner. • The Business manager provided an early draft of the annual report and accounts for audit to review. 	<p>The annual report and accounts were available for audit in accordance with the agreed timetable and were of a good standard.</p> <p>Conclusion: Satisfactory</p>
<p>Capacity: the Commissioner has identified as a risk demands on capacity with both the volume and complexity of issues increasing. To address the risk the Commissioner has recruited replacement staff, amended operating procedures and is reviewing ICT systems.</p>	<ul style="list-style-type: none"> • In February 2016 the Scottish Parliament awarded a further £37,000 to cover increased costs for investigating complaints about conduct. • Arrangements were put in place for contingency funding with the Scottish Parliament. £14,000 was awarded to develop a specification for a replacement case management system. In the event £5,000 was required. The remaining £9,000 of contingency funding will be drawn down in 2016/17. 	<p>Additional Investigating Officers were recruited and work commenced on replacing the case management system.</p> <p>Conclusion: Satisfactory</p>

Appendix II: Summary of local audit reports 2015/16



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



Appendix IV – Action plan

No.	Para	Issue/risk/Recommendation	Management action/response	Responsible officer	Target date
1.	44	<p>Issue: audit testing revealed three instances where the Commissioner did not operate in accordance with the approved scheme of delegation. From a sample of 13 invoices:</p> <ul style="list-style-type: none"> • one invoice for £4,512.00 was signed by one member of staff instead of 2 • one invoice for £5,340.60 was signed by an officer who was not included in the scheme of delegation • one invoice for £601.93 had no evidence of any authorisation <p>Risk: invoices are not properly authorised resulting in an increased risk of fraud or error.</p> <p>Recommendation: management should ensure the standing financial instructions and scheme of delegation are up to date and invoices are authorised in accordance with the requirements of these policies.</p> <p><i>Low risk</i></p>	<p>The Business Manager will review the standing financial instructions and scheme of delegation and update as appropriate.</p> <p>All invoices are reviewed by the Business manager prior to being processed and this procedure mitigates the risk of fraud or error in the system.</p>	Business Manager	Complete