



**Scottish Public Services Ombudsman**

Final report to the Ombudsman and the Auditor General for Scotland  
on the 2016/17 audit

August 2017

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# Director introduction

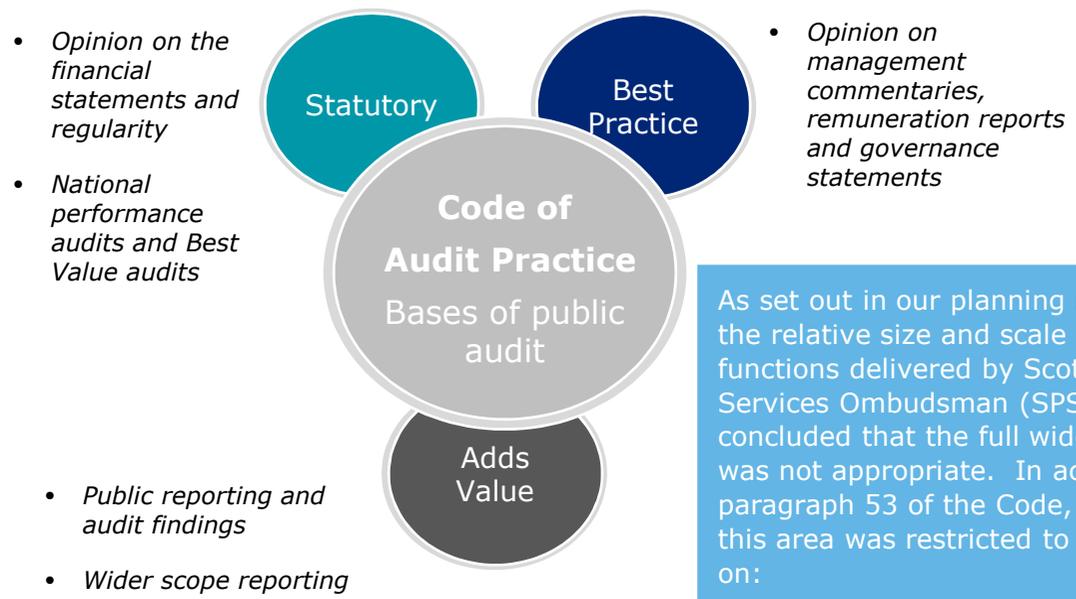
## The key messages in this report

Audit quality is our number one priority. We plan our audit to focus on audit quality and have set the following audit quality objectives for this audit:

- A robust challenge of the key judgements taken in the preparation of the financial statements.
- A strong understanding of your internal control environment.
- A well planned and delivered audit that raises findings early with those charged with governance.

I have pleasure in presenting our final report to the Ombudsman for the 2016/17 audit.

As detailed in our plan presented to the Ombudsman on 21 February 2017, the new Code of Audit Practice, which came into force for the 2016/17, audits sets out our responsibilities under core audit and wider scope requirements. A reminder of the requirements is set out below.



As set out in our planning report, due to the relative size and scale of the functions delivered by Scottish Public Services Ombudsman (SPSO), we concluded that the full wider scope audit was not appropriate. In accordance with paragraph 53 of the Code, our work in this area was restricted to concluding on:

- The appropriateness of the disclosures in the governance statement; and
- The financial sustainability of SPSO and the services that it delivers over the medium to longer term.

# Director introduction (continued)

## The key messages in this report (continued)

I would like to draw your attention to the key messages of this paper:

### Statutory audit

#### **Conclusions from our testing**

- The significant risks, as identified in our audit plan, related to:
  - Compliance with expenditure resource limits; and
  - Management override of controls.
- A summary of our work on the significant risks is provided in the dashboard on page 9.
- We have identified no audit adjustments from our procedures to date.
- Based on our audit work, we issued an unmodified audit opinion.

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#### **Status of the audit**

- Our audit is complete.

# Director introduction (continued)

## The key messages in this report (continued)

### Best Practice

#### Overall conclusion

- We have reviewed the annual report with reference to the format and content set out in the Government Financial Reporting Manual (FRoM), confirming that the annual report and accounts comprise a performance report, an accountability report (which includes the remuneration report and staff report, the governance statement and the parliamentary accountability disclosures) and the financial statements.
- As a new requirement in 2016/17, we are required to provide an opinion on whether:
  - the performance report has been prepared in accordance with the directions made thereunder by the Scottish Ministers;
  - the information given in the governance statement is consistent with the financial statement; and
  - the governance statement has been prepared in accordance with the Acts and the directions made thereunder by the Scottish Ministers.
- Based on our audit work, we issued unmodified opinions on the above.
- In addition to the opinion, we have read the performance report and accountability report (including the governance statement) and confirmed that the information contained within both is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.
- We have audited the auditable parts of the remuneration and staff report and confirmed it has been prepared in accordance with the Acts and the directions made thereunder by the Scottish Ministers.

# Director introduction (continued)

## The key messages in this report (continued)

### Adds Value

#### **Governance Statement**

The FReM requires a governance statement to be published with the financial statements and guidance on content is provided in the governance statement section of the Scottish Public Finance Manual (SPFM) which sets out the essential features. We have confirmed that the SPSO governance statement is in compliance with this guidance and is consistent with our knowledge gained during the audit. We are not aware of any significant events between 31 March 2017 and the date of this report which have not been included in the governance statement.

As part of the review of the effectiveness of the systems of internal control and risk management arrangements, the Ombudsman has been informed by the Senior Management Team (SMT), the Audit and Advisory Committee (AAC), the work of internal auditors and comments from Deloitte as external auditors.

As part of our wider scope audit work we have reviewed the governance statement and concluded there are no inconsistencies or omissions based on audit evidence obtained throughout the audit.

#### **Financial Sustainability**

SPSO had approved funding for 2016/17 of £3,253k, with additional funding of up to £107k in order to establish a fixed term Learning and Improvement Unit.

SPSO operated within its cash allocation, drawing down the full allocation. Other income of £698k was secured in the year to fund additional specified areas of expenditure, such as acting as an independent reviewer of Scottish Welfare Fund (SWF) decisions and developing a new social work complaints handling procedure.

A Strategic Plan is in place for the period 2016-2020, which details SPSO objectives and how these fit with its statutory duties and Scottish Government National Outcomes. This is supplemented with annual Business Plans which summarises yearly performance against measures.

Budgets are prepared on an annual basis with indicative budgets for the 2 following years included. As there is uncertainty around future funding that will be received, 3 years budgeting is deemed adequate. We are satisfied that SPSO is pro-active in respect of its short, medium and longer term financial plan and will continue to operate within its cash allocation.

**Pat Kenny**  
**Audit Director**

# Responsibilities of the Audit and Advisory Committee

## Helping you fulfil your responsibilities

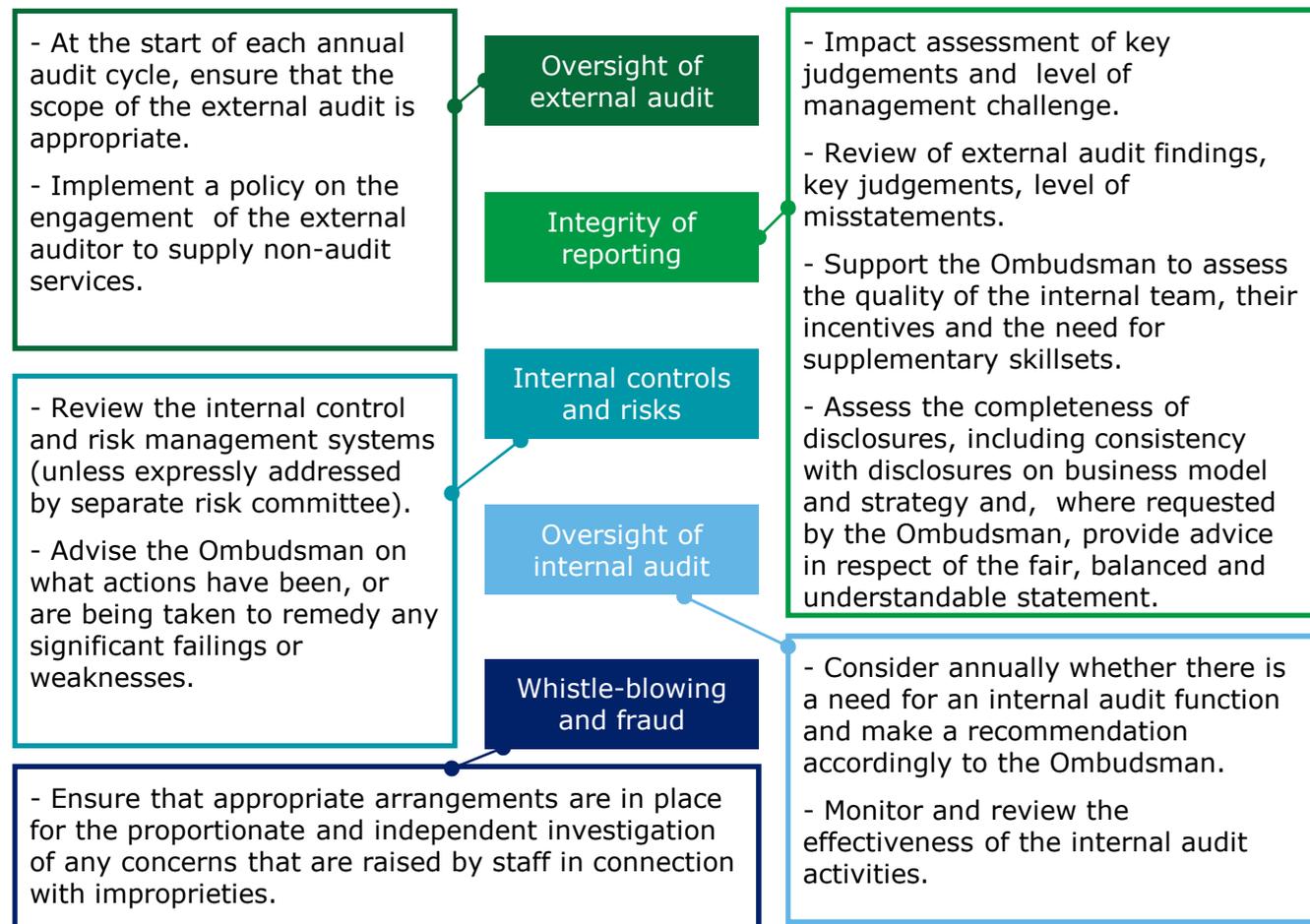
The primary purpose of the Auditor's interaction with the Audit Committee:

- Clearly communicate the planned scope of the financial statements audit
- Provide timely observations arising from the audit that are significant and relevant to the Audit Committee's responsibility to advise the Ombudsman on the financial reporting process
- In addition, we seek to provide the Audit Committee with additional information to help them fulfil their broader responsibilities

We use this symbol throughout this document to highlight areas of our audit where the Audit Committee need to focus their attentions.



As a result of regulatory change in recent years, the role of the Audit Committee has significantly expanded. We set out here a summary of the core areas of Audit Committee responsibility to provide a reference in respect of these broader responsibilities and highlight throughout the document where there is key information which helps the Audit and Advisory Committee in fulfilling its remit in advising the Ombudsman.



# Our audit explained

## Area dimensions

In accordance with the 2016 Code of Audit Practice, we have considered:

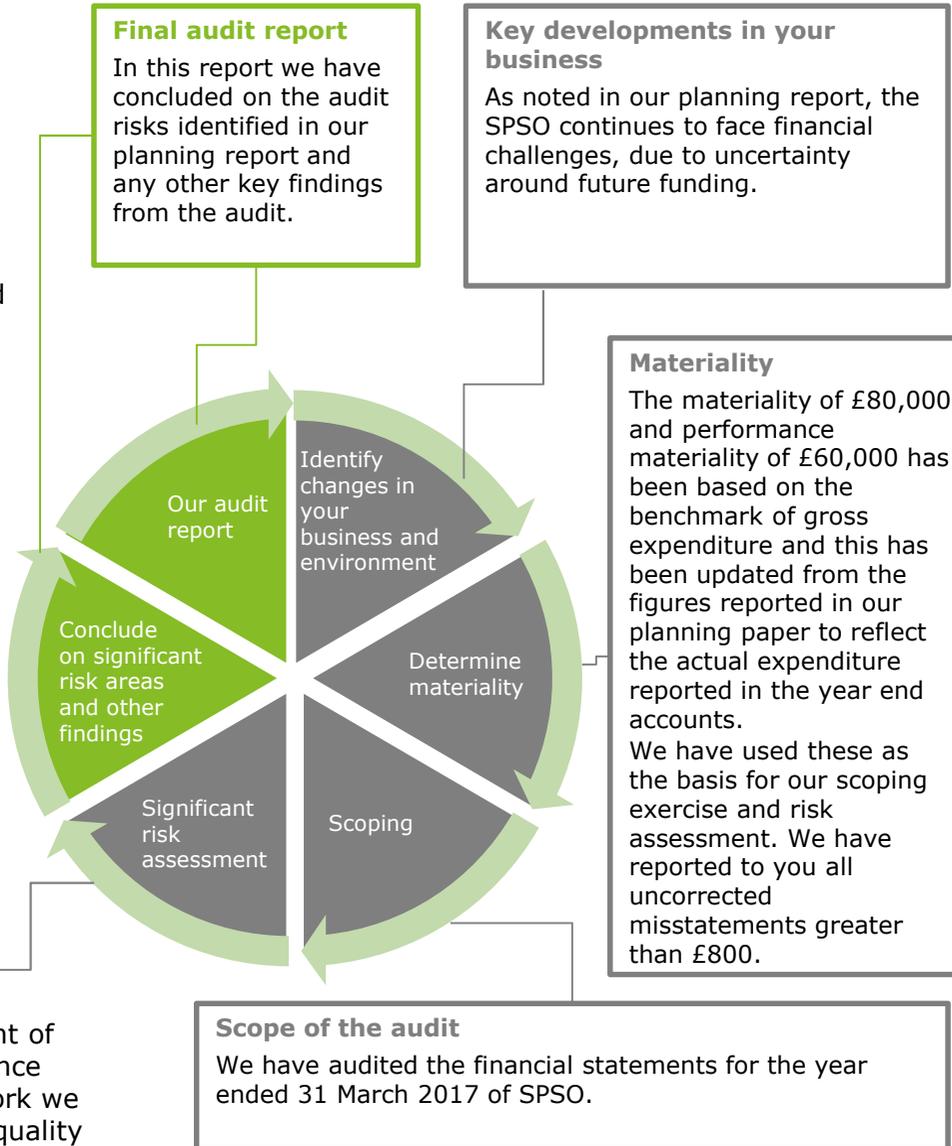
- The appropriateness of the disclosures in the governance statement; and
- The financial sustainability of SPSO and the services that it delivers over the medium to longer term.

## Significant risks

Our risk assessment process is a continuous cycle throughout the year. Page 9 provides a summary of our risk assessment of your significant risks.

## Quality and Independence

We confirm we are independent of SPSO. We take our independence and the quality of the audit work we perform very seriously. Audit quality is our number one priority.



## Timeline 2017



# Significant risks Dashboard

Risk	Material	Fraud risk	Planned approach to controls testing	Controls testing conclusion	Consistency of judgements with Deloitte's expectations	Comments	Slide no.
Expenditure limits			D+I	Satisfactory		Expenditure in 2016/17 was within budget	10
Management override of controls			D+I	Satisfactory		No issues identified	11



Overly prudent, likely to lead to future credit



Overly optimistic, likely to lead to future debit.

**D+I:** Testing of the design and implementation of key controls

# Significant risks (continued)

## Expenditure resource limits

### Risk identified

The key financial duty for SPSO is to comply with the budget allocated by the Scottish Parliamentary Corporate Body (SPCB) to cover cash expenditure and non-cash costs such as depreciation and amortisation. Given the pressures across the whole of the public sector, there is an inherent risk associated with the accuracy and completeness of recording of expenditure as there is an incentive for management to either over or under accrue expenditure at the year end, depending on the forecast position, in order to meet the allocation.

### Key judgements and our challenge of them

We must provide an opinion on regularity, to the effect that expenditure and receipts were incurred or applied in line with guidance. We have evaluated the results of our audit testing in the context of the achievement of the targets set by the SPCB.

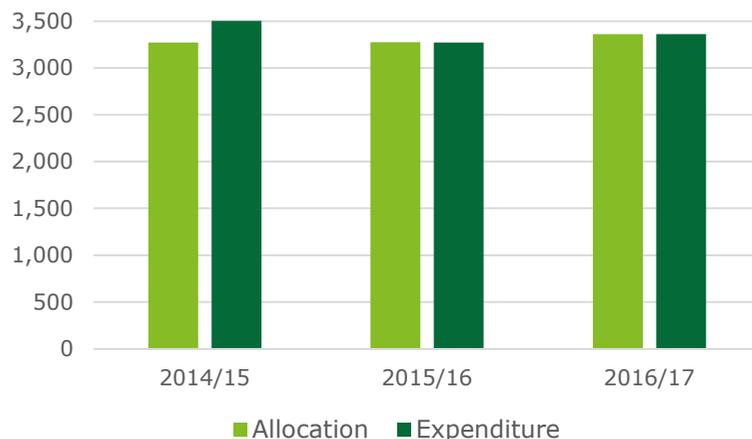


### Deloitte response



- our focused cut-off testing is currently ongoing;
- reviewed the projected run rate of expenditure throughout the year to identify the risk of over or under accrual at the year-end to inform focused testing;
- assessment of whether expenditure is correctly classified between revenue and capital and whether it has been incurred in accordance with Scottish Government's guidance is ongoing;
- we reviewed and challenged the assumptions made in estimating accruals to assess completeness of recorded expenditure; and
- we obtained independent confirmation of the resource limits allocated to SPSO by the SPCB.

**Expenditure against allocation**



### Deloitte view

Based on our audit work the expenditure and receipts were incurred or applied in accordance with the applicable enactments and guidance issued by the SPCB.

We confirmed that SPSO has performed within the limits set by the SPCB and therefore in compliance with the financial targets in the year.

# Significant risks (continued)

## Management override of controls

### Risk identified

International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor. This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.



### Deloitte response

We have considered the overall sensitivity of judgements made in preparation of the financial statements, and note that:

- SPSO's results throughout the year were projecting to meet budget and additional allocations, this was closely monitored by the SMT so overall financial targets would be met.
- Senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

### Journals

We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.

### Accounting estimates

In addition to our work on key accounting estimates discussed above, our retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements has been completed with no issues noted.

### Significant transactions

We did not identify any significant transactions outside the normal course of business or transactions where the business rationale was not clear.

### Deloitte view

- We have not identified any significant bias in the key judgements made by management.
- The control environment is appropriate for the size and complexity of SPSO.

# Your annual report

We welcome this opportunity to set out for the Ombudsman our observations on the annual report. We are required to provide an opinion on the remuneration report, the annual governance statement and whether the management commentaries are consistent with the disclosures in the accounts.

	<b>Disclosure in annual report</b>	<b>Deloitte response</b>
The Performance Report	This reports the performance of SPSO, both financial and non-financial. It outlines its vision, purpose and what its achieved against its outcomes. It highlights a slight overspend on original budget which was due to additional funding to set up the Learning and Improvement Unit.	<p>We have assessed whether the performance report has been prepared in accordance with the FReM and the accounts direction and have provided our comments to management.</p> <p>We have also reviewed the performance report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p>
The Accountability Report	Management have ensured that the accountability report meets the requirements of the FReM, comprising the governance statement, remuneration and staff report and the parliamentary accountability report.	<p>We have assessed whether the information given in the governance statement is consistent with the financial statements and has been prepared in accordance with the FReM and the accounts direction and no exceptions were identified. Our more detailed consideration of the governance statement is provided on page 13 of this report.</p> <p>We have also read the accountability report and confirmed that the information contained within is materially correct and consistent with our knowledge acquired during the course of performing the audit, and is not otherwise misleading.</p> <p>We have completed our work in relation to the auditable parts of the remuneration and staff report and whether it has been prepared in accordance with the accounts direction, with no issues noted.</p>
Going Concern	Management has made appropriate disclosure relating to Going Concern matters.	<p>We have confirmed that the 2017/18 Budget has been approved by the Ombudsman. We have concluded that the plan is sufficiently robust to demonstrate that SPSO will be a Going Concern for 12 months from signing the accounts.</p> <p>We note that the Plan was approved by the Ombudsman in June 2017 and that confirmation from the Scottish Government is outstanding.</p>

# Wider scope requirements

## Governance statement disclosures

### Audit dimension

As part of our wider scope responsibilities, we have considered the appropriateness of the disclosures in the governance statement.



#### Areas considered

- The completeness of the disclosures in meeting the requirements of the essential features, as specified in the SPFM.
- Inconsistencies between the disclosures or between the disclosures and audit knowledge.

#### Deloitte view

- The Governance Statement meets the requirements of the SPFM and no inconsistencies noted between the disclosures and our knowledge gained during the audit.



#### Deloitte response

Rosemary Agnew took up the role of Ombudsman and Accountable Officer on 1 May 2017, succeeding Jim Martin who was Ombudsman and Accountable Officer for 2016-17.

The above key change has been appropriately disclosed within the governance statement.

As part of the review of the effectiveness of the systems of internal control and risk management arrangements, the Accountable Officer has been informed by the SMT, the AAC, the work of internal auditors and comments from Deloitte as external auditors.

We have reviewed the financial and performance reporting to SPSO during the year as well as minutes of all SMT and AAC meetings to assess the effectiveness of the governance arrangements. Our attendance at AAC meetings has also informed our work in this area.

# Wider scope requirements

## Financial sustainability

### Audit dimension

As part of the annual audit of the financial statements, we have considered the appropriateness of the use of the going concern basis of accounting. Going concern is a relatively short-term concept looking forward 12 to 18 months from the date the accounts are signed. Financial sustainability interprets the requirements and looks forward to the medium (two to five years) and longer term (longer than five years) to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

### Areas considered



- The financial planning systems in place across the shorter and longer terms
- The arrangements to address any identified funding gaps
- The affordability and effectiveness of funding and investment decisions made

### Deloitte response



We have monitored the Ombudsman's actions in respect of its short term financial plans to assess whether short term financial balance can be achieved.

There are no long-term financial plans in place, due to the uncertainty of future funding which will be received.

### Deloitte view

Historically, SPSO has largely operated within its cash allocation and we are satisfied SPSO is pro-active in respect of its short, medium and longer term financial plan and will continue to operate within its cash allocation.

### Short Term

The 2016/17 budget was submitted to SPCB in October 2014. The total funding received increased 3% compared to 2015/16, from £3,274k to £3,360k in 2016/17. The SPSO operated within its cash allocation, drawing down the full allocation.

Other income of £698k was secured in the year to fund additional specified areas of expenditure, such as acting as an independent reviewer of Scottish Welfare Fund (SWF) decisions and developing a new social work complaints handling procedure. As a result of these new areas of jurisdiction, operating expenditure has increased from £3,250k in 2015/16 to £3,340k in 2016/17.

### Medium-Long Term

A Strategic Plan is in place for the period 2016-2020, which details SPSO objectives and how these fit with its statutory duties and Scottish Government National Outcomes. This is supplemented with annual Business Plans which summarises yearly performance against measures. But there could be more of a link between resource planning and the outcomes achieved.

Budgets are prepared on an annual basis with indicative budgets for the 2 following years included. As there is uncertainty around future funding that will be received, 3 years budgeting is deemed adequate.

# Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

## What we report

Our report is designed to help the SPSO discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK and Ireland) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.
- Our internal control observations
- Other insights we have identified from our audit

## What we don't report

As you will be aware, our audit was not designed to identify all matters that may be relevant to the Ombudsman.

Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.

Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

We welcome the opportunity to discuss our report with you and receive your feedback.

## The scope of our work

Our observations are developed in the context of our audit of the financial statements.

We described the scope of our work in our audit plan and the supplementary "Briefing on audit matters" circulated to you on 24 January 2017.

This report has been prepared for the SPSO, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.



**Deloitte LLP**

Glasgow

13 September 2017

# Appendices



# Audit adjustments

## **Corrected misstatements**

- No corrected misstatements have been identified from our audit work.

## **Uncorrected misstatements**

- No uncorrected misstatements have been identified from our audit work.

## **Disclosure misstatements**

- Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. We have noted no uncorrected material disclosure deficiencies in the course of our audit work.

# Fraud responsibilities and representations

## Responsibilities explained



### Responsibilities:

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.



### Required representations:

We have asked the Ombudsman to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity or group.

We have also asked the Ombudsman to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.



### Audit work performed:

In our planning we identified the risk of fraud in complying with expenditure resource limits and management override of controls as a key audit risk for your organisation.

During course of our audit, we have had discussions with management and those charged with governance.

In addition, we have reviewed management's own documented procedures regarding fraud and error in the financial statements.

### Concerns:

We have identified no cause for concerns from our audit procedures performed.



# Independence and fees

As part of our obligations under International Standards on Auditing (UK and Ireland), the Listing Rules and the Companies Act, we are required to report to you on the matters listed below:

<b>Independence confirmation</b>	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
<b>Fees</b>	<p>The audit fee for 2016/17 is £17,260 as detailed in our Audit Plan.</p> <p>No non-audit service fees have been charged by Deloitte in the period.</p>
<b>Non-audit services</b>	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the company's policy for the supply of non-audit services or any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
<b>Relationships</b>	<p>We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.</p> <p>We are not aware of any relationships which are required to be disclosed.</p>





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