

Governance and Accountability Report (2016-17)

Report from Dr Tom Frawley, Chair of the SPSO Audit and Advisory Committee

Introduction

Each year as part of the SPSO's annual report, the chairman of the SPSO Audit and Advisory Committee (the Committee) is required to produce an annual report on behalf of the Committee. The purpose of the report is to summarise the Committee's work over the previous financial year and provide the Committee's opinion in relation to:

- the effectiveness of governance, risk management and control;
- the comprehensiveness of assurances in meeting the management requirements of the Ombudsman and management;
- the reliability and integrity of these assurances;
- review the integrity of the financial statements; and
- advise the Ombudsman as Accounting Officer about how effectively the assurances support the Ombudsman in decision-taking and in discharging his accountability obligations.

In addition the Committee has sought to add value to the governance processes within the Office of the SPSO.

The Committee during the period being reported on met in accordance with its terms of reference which in turn are informed by the work schedule laid out in the Scottish Government Audit Committee Handbook (2008).

The core issues examined by the Committee were considered through the regular review of the risk management processes that are undertaken by management. This was done in conjunction with the review and discussion of the work undertaken by internal and external audit throughout the course of the financial year 2016-17.

The Audit Committee met on three occasions during 2016-17:

- 8 July 2016 (full day)
- 15 November 2016
- 21 February 2017

The notes of these meetings are available on the SPSO website.

Committee Membership and Structure

The Committee membership during 2016-17 comprised the chairman Tom Frawley, Heather Logan and Jim McCormick. All of the audit meetings during 2016-17 were quorate and were chaired by Tom Frawley.

The Committee's terms of reference are kept under regular review as guidance in relation to corporate governance and audit is constantly developing. The Committee at the end of the financial year again used the 'Audit Committee Self-Assessment Checklist' as a mechanism to review its effectiveness. In preparation for this process, members were asked to individually review how the Committee operates. The members then met together ahead of the Committee's February meeting. The non-executive members were joined by the internal auditor who facilitated the non-executive members in completing the self-assessment process together. Overall at the end of the review the non-executive members concluded they were content with the way in which the audit Committee was operating and in particular the level of engagement by management.

Senior officers who attended all or at least one of the AAC meetings during 2016-17:

Gillian Woolman and Patricia Fraser, Audit Scotland; Nicola Johnston, SLAB Internal Auditor; Alan Hadow, SLAB Internal Auditor; Jim Martin, Scottish Public Service Ombudsman; Niki Maclean, SPSO Director (Secretary); Emma Gray, SPSO Head of Policy and External Communications; Paul McFadden, SPSO Head of Complaints Standards; John Stevenson, SPSO Head of Complaints Standards; Fiona Paterson, PA to Ombudsman (minutes); Jamie McGrandles, SPSO Executive Casework Officer; Rachel Nicholson, SPSO Executive Casework Officer; Elizabeth Derrington, Independent Service Complaints Reviewer.

During 2015-16, the Committee received regular briefings and updates from both the external and internal auditors on their respective work programmes for the office. These programmes were based on the Audit Plans which had been agreed with management and endorsed by the Committee. The Committee also received formal reports on aspects of the Audit Plans during the year.

Work of the Committee

During 2016-17 the Committee received reports in relation to internal audit, external audit, risk management and internal control. The core business programme of the Committee during the year included the following:

- review of the final accounts for the financial year 2015-16 prior to their submission for audit;
- the governance statement for the year 2015-16;
- updates and briefings on internal audit reports;
- the internal audit opinion on 2015-16 accounts;
- the internal audit strategy and related periodic work plans;
- the emerging external audit opinion for 2016-17;
- advice to the Accounting Officer in relation to signing off the final accounts;
- external auditors report for 2015-16 – emerging findings from external audits current in year programme; and
- residual actions arising from previous year's work of both internal and external audit.

The Committee reviewed in detail the arrangements implemented by management in relation to identifying, assessing and managing risk.

The Committee reviewed the risk register prepared by management at each of its meetings during 2016-17. In relation to strategic processes for developing controls, managing risk and ensuring sound governance during 2016-17 the Committee sought to assure itself that:

- the risk management culture in the office was appropriate; there was a comprehensive process for identifying and evaluating risk and for reviewing what level of risk was acceptable;
- the risk register accurately records and reflects the risk being faced by the SPSO;
- management had an informed and realistic view of how effective controls were;
- risk management was being implemented a way that was proportionate and benefitted the SPSO and added value;

- all staff had an awareness of the importance of risk management and the need to proactively identify and respond to risk;
- the systems of internal controls are effective; and
- the Accounting Officer's annual governance statement was realistic and supported by meaningful evidence.

External Audit

The Committee found the proactive approach adopted by Audit Scotland to be effective. This approach enabled the Committee to have an early understanding of the remit of the audit by having a particular focus on the organisationally specific risks and priorities facing SPSO; the relevant national risks that were particularly relevant to the environment in which the SPSO is operating; the continuing impact of changing international auditing and accounting standards; the responsibilities of external audit under the terms of Audit Scotland's Code of Audit Practice; and a limited number of issues that have been carried forward from the previous audit report.

The opinion reached by the external auditors from Audit Scotland in relation to the final accounts for the financial year 2015-16 was unqualified. In the opinion of the external auditors, therefore in all material respects, expenditure had been applied for the purposes intended by Parliament and all financial transactions were compliant with the authorities that are required. The external auditor also advised that they have no further concerns or observations to make in relation to the financial statements.

Internal Audit

Internal Audit provided the Committee with assurance in relation to the control processes that are being operated in the SPSO. These assurances are important because they are the foundations required to underpin effective risk management arrangements. By reviewing and evaluating the reports of internal audit that the Committee delivers on a core aspect of the Committee's accountability role. During the financial year 2016-17 the internal audit function undertook reviews of HR / Payroll / Absence; Risk Management; Accounting / Budgeting; Procurement; and Climate Change Reporting. The overall opinion reached by internal auditor was

that SPSO has a generally sound framework of control, which provides reasonable assurance regarding the effective and efficient achievement of its objectives.

Commentary

During the financial year of 2016-17 the Committee noted that neither external audit or internal audit identified any serious areas of concern.

One of the particular strengths of the performance of the office during the financial year being reported on is the effective working relationship that was evident between auditors and the senior management. This is reflected in both the proactivity of management in moving to implement recommendations and the flexibility of auditors to move quickly to address any emerging issues that are of concern to the Committee or to management.

At the end of the financial year 2015-16, the Committee was made aware of a number of known unbudgeted liabilities. In the year being reported on this issue continues to be of real concern. There is a significant and developing risk around the challenges for the SPSO in balancing its expenditure and staffing levels against a reduced budget especially when there is the real potential for an increased workload both from the current jurisdiction and agreed significant extensions to the jurisdiction of the office. The Committee noted that the unbudgeted liabilities had been notified to the SPCB. The Committee continues to be concerned that the SPSO is required to continue to absorb unbudgeted liabilities from its limited existing budget. This is a situation that will require to be addressed going forward.

The Future

The Committee continues to monitor progress across all areas under its remit, particularly with the proposed significant extensions to the jurisdiction of the SPSO. This is clearly going to continue to be a period of significant change and adjustment for the office. As was indicated in last year's report the Committee believes the office is well placed to respond to these challenges. However, its capacity to do so will be adversely impacted if it is not adequately resourced to fulfil its statutory responsibilities. If it is not fairly resourced, its current performance in both offering remedy and redress to some of the most vulnerable while at the same time supporting the improvement in public services, can be put at serious risk.

The Committee will continue to support the Ombudsman in meeting the governance and accountability requirements of the office. The Committee continues to be committed to ensuring the levels of performance across all functions of the Office are maintained and enhanced.

Finally, before concluding this year's report, it is important to acknowledge the outstanding contribution made to the work of the Committee by Heather Logan. Heather indicated during the financial year that she intended to leave the Committee at the end of the financial year. Heather has been an exemplary member, her contributions challenging but always constructive and supportive. Her advice ensured that the Committee's discussions were more robust and thorough. Her perspectives were valued by management and her fellow Directors. She will be greatly missed and we wish her well as she moves on to new challenges where she will make a real difference. Our loss is their gain.