

Scottish Public Services Ombudsman

2022/23 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Scottish Public Services Ombudsman and the Auditor General for Scotland

September 2023

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Key messages

2022/23 annual report and accounts

- 1** Audit opinions on the annual report and accounts are unmodified. This means that the auditor is content that the accounts show a true and fair view and have been properly prepared to follow relevant standards and guidance and that income and expenditure for the year is lawful.
- 2** Non-material adjustments have been made to the annual report and accounts as a result of the audit process. One non-material adjustment was not corrected.

Wider-scope

- 3** The Scottish Public Services Ombudsman has effective and appropriate arrangements in place to continue to deliver services.
- 4** An underspend of £21 thousand has been reported against budget in 2022/23.
- 5** The Scottish Public Services Ombudsman has yet to develop a medium-term financial plan.
- 6** Appropriate arrangements are in place to secure Best Value.

Introduction

1. This report summarises the findings from the 2022/23 annual audit of Scottish Public Services Ombudsman (SPSO). The scope of the audit was set out in an Annual Audit Plan presented to the 28th March 2023 meeting of the Advisory Audit Board. This Annual Audit Report comprises:

- the audit of SPSO's 2022/23 annual report and accounts
- wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#), which for less complex bodies includes conclusions on financial sustainability.

2. This report is addressed to the SPSO and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

Responsibilities and reporting

3. SPSO has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from Scottish Ministers. SPSO is also responsible for compliance with legislation and putting arrangements in place for governance, propriety and regularity.

4. The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2021](#) and supplementary guidance and International Standards on Auditing in the UK.

5. The weaknesses or risks identified in this report are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

6. This report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation.

Auditor independence

7. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £24,690 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

8. We would like to thank the Ombudsman, Advisory Audit Board members, and staff at SPSO, particularly those in finance, for their cooperation and assistance throughout the audit. We look forward to continuing to work together constructively over the remainder of the appointment.

Part 1. Audit of 2022/23 annual report and accounts

Public bodies are required to prepare annual report and accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship of public funds.

Main judgements

Audit opinions on the annual report and accounts are unmodified.

Expenditure and income are regular and in accordance with applicable enactments and guidance.

Non-material adjustments have been made to the annual report and accounts as a result of the audit process. One non-material adjustment was not corrected.

Audit opinions on the annual report and are unmodified

9. The Ombudsman approved the annual report and accounts for SPSO for the year ended 31 March 2023 on **22 September 2023**. As reported in the independent auditor's report, in my opinion as the appointed auditor:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income are regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report was prepared in accordance with the financial reporting framework
- the performance report and governance statement were consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

Overall materiality was assessed as £126 thousand

10. Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

Exhibit 1

Materiality values

Materiality level	Amount
Overall materiality	£126 thousand
Performance materiality	£92 thousand
Reporting threshold	£6 thousand

Source: Audit Scotland

11. The overall materiality threshold was set with reference to gross expenditure, which we judged as the figure most relevant to the users of the financial statements.

12. Performance materiality is used by auditors when undertaking work on individual areas of the financial statements. It is a lower materiality threshold, set to reduce the probability of aggregated misstatements exceeding overall materiality. Performance materiality was set at 73 per cent of overall materiality, reflecting our assessment of the risk profile of the organisation.

13. It is our responsibility to request that all misstatements are corrected, although the final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

14. Under International Standard on Auditing (UK) 260 we communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices.

15. The Code of Audit Practice also requires auditors to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

16. While there have been some non-material misstatements, there are no significant issues to report from the audit of the financial statements.

Our audit work responded to the risk of material misstatement we identified in the annual report and accounts

17. We have obtained audit assurances over the identified significant risk of material misstatement to the annual report and accounts. [Exhibit 2](#) sets out the significant risk of material misstatement to the financial statements we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we performed during the year to obtain assurances over this risk and the conclusions from the work completed.

Exhibit 2

Identified significant risk of material misstatement in the annual report and accounts

Audit risk	Assurance procedure	Results and conclusions
<p>1 Risk of material misstatement due to fraud caused by management override of controls. As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • Assess the design and implementation of controls over journal entry processing. • Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. • Test journals at the year-end and post-closing entries and focus on significant risk areas. • Consider the need to test journal entries and other adjustments during the period. • Evaluate significant transactions outside the normal course of business • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments. 	<p>We undertook the assurance procedures and found:</p> <ul style="list-style-type: none"> • no issues were identified with our review of the design and implementation of journal entry processing • management are not aware of any inappropriate or unusual activity • the detailed testing of journals around the year-end did not identify any issues or errors • the detailed testing of journal entries included journals made throughout the year • no significant transactions outside the course of business were identified • the detailed testing of income and expenditure around the year-end did not identify any issues or errors • detailed testing of accruals and prepayments identified no issues. <p>Conclusion: We did not identify any issues as a result of our audit work that would indicate management override of controls affecting the year-end position.</p>

18. In addition, we identified an “area of audit focus” in our 2022/23 Annual Audit Plan where we considered there to be other risks of material misstatement to the financial statements. The area of specific audit focus was:

- **IFRS 16 implementation**

The impact of the implementation of IFRS is not expected to be material, however Operating Leases' closing balance was £1.78 million in the 2021/22 annual statements. This is the first year of the implementation of IFRS 16. There is consequently a risk that disclosures in the financial statements may be incorrect.

Results and conclusions: We reviewed the workings, journals and disclosures in relation to IFRS 16. No issues were identified with the workings, journals and disclosures all concluded to be in line with IFRS 16.

19. We kept these areas under review throughout our audit. Based on the findings of the audit procedures performed there are no matters which we need to bring to your attention.

Non-material adjustments have been made to the annual report and accounts as a result of the audit process. One non-material adjustment was not corrected

20. When reviewing the untaken holiday liability, we identified that it did not include all costs in line with IAS 19 employee benefits. The accrual did not include employer's national insurance or employer's pension contributions. A correction was made that resulted in a £54,448 increase to the liability.

Recommendation 1

SPSO should ensure that the untaken holiday liability includes all costs in line with IAS 19.

21. Our review of the backdated pay accrual found that it was incorrectly calculated. We found that the accrual double counted the effect of the pay award. As a result, the liability decreased by £18,911.

Recommendation 2

SPSO should ensure that any future back dated pay accruals are calculated correctly.

22. We identified one misstatement which was not corrected by management in the audited accounts. This was for a year end invoice that is received each year but always relates to the subsequent financial year. No prepayment had been recognised and hadn't been in prior years. A correction was made to recognise the prepayment this year. However, this meant expenditure was understated by £19,080 due to no prepayment being recognised in 2021/22. Management decided to leave the £19,080 as an uncorrected misstatement.

23. We considered the size, nature and circumstances leading to the uncorrected misstatement and concluded that this was not material. Further detail of the uncorrected misstatement is included in [Appendix 2](#).

The unaudited annual report and accounts were received in line with the agreed timetable

24. The unaudited annual report and accounts were received in line with our agreed audit timetable on 10th July 2023.

Limited progress was made on prior year recommendations

25. SPSO has made limited progress in implementing the audit recommendations identified by Deloitte LLP, SPSO's previous external auditor. For actions not yet implemented, revised responses and timescales have been agreed with management, and are set out in [Appendix 1](#).

Part 2. Wider Scope

For less complex bodies wider-scope audit work considers the financial sustainability of the body and the services that it delivers over the medium to longer term

Conclusion

SPSO has effective and appropriate arrangements in place to continue to deliver services.

An underspend of £21 thousand has been reported against budget in 2022/23.

SPSO has yet to develop a medium-term financial plan.

Appropriate arrangements are in place to secure Best Value.

Audit work has addressed the wider scope risk identified in our Annual Audit Plan

26. [Exhibit 3](#) sets out the wider scope risk relating to financial sustainability that we identified in our 2022/23 Annual Audit Plan. It summarises the audit procedures we performed during the year to obtain assurances over this risk and the conclusions from the work completed.

Exhibit 3

Risk identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p>Financial sustainability</p> <p>The current economic and financial climate alongside a growing workload for SPSO could result in expenditure exceeding funding. Medium term financial planning would help address any longer-term financial challenges.</p>	<ul style="list-style-type: none"> Review of arrangements in place to manage financial position. Review of any progress made in developing financially sustainable plans in the medium and longer term. Review any forecasts/budgeting work for future years for both financial and workforce planning. 	<p>SPSO have forecasting in place for the medium-term which covers the next two financial years. This aids SPSO's planning, however it could be improved by introducing longer-term planning to complement plans already in place.</p>

SPSO operated within its budget for 2022/23

27. SPSO receives funding on a cash basis from the overall budget of the Scottish Parliamentary Corporate Body (SPCB). The main financial objective for SPSO is to ensure that the financial outturn for the year is within the budget allocated by SPCB. SPSO should also ensure that their resources will be used economically, efficiently, and effectively.

28. SPSO's budget for 2022/23 was £6.777 million. SPSO's reported outturn for 2022/23 was £6.756 million, resulting in an underspend of £21 thousand.

SPSO has yet to develop a Medium-Term Financial Plan

29. SPSO's 2023/24-2024/25 two-year financial plan was approved by the Scottish Parliament on 3rd March 2023. SPSO's forecast includes additional costs relating to five temporary case reviewers from September 2021 to August 2022. Forecasts in the financial plan are based on several assumptions including allocation uplifts, inflationary costs and pay growth.

30. The previous external auditors, Deloitte, recommended that SPSO should develop a medium-term financial plan. This would ensure that SPSO can manage its resources sustainably and deliver services effectively. SPSO advised in 2021/22 that the reason for not yet having a medium-term financial plan was a direct result of not being able to obtain multi-year funding from SPCB.

31. As the new external auditors, we also believe it is important that SPSO should develop a medium-term financial plan. We believe that this is important for effective decision making as it allows the organisation to assess and balance the financial implications of policies with constraints in available funding. The prior year recommendation can be seen in [Appendix 1](#) at issue 3.

SPSO has appropriate arrangements in place for securing Best Value

32. SPSO has confirmed that arrangements have been made to secure best value. These arrangements are stated in the SPSO's performance report which is included in the annual statements.

33. SPSO has embedded and developed the Independent National Whistleblowing Officer for the NHS function (INWO). This included a range of activities from providing an advice and support service, investigating complaints about how NHS providers handled concerns and promoting the whistleblowing standards, to raise awareness and engaging with a variety of stakeholders.

34. SPSO has also launched a project to develop child friendly complaints processes. This involved carrying out research, stakeholder engagement and adopting a codesign approach which saw the body engage with children and young people of different ages and backgrounds to hear what good complaints handling means to them.

Appendix 1. Action plan 2022/23

2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Untaken Holiday Liability</p> <p>The untaken holiday liability did not include employer's national insurance or employer's pension contributions.</p> <p>Risk – the cost of the untaken holiday liability is not in line with IAS 19.</p>	<p>SPSO should ensure that the untaken holiday liability includes all costs in line with IAS 19.</p> <p>Paragraph 20</p>	<p>Noted and agreed.</p> <p>Director</p> <p>In line with annual accounting timetable as agreed.</p>
<p>2. Accrual of Backdated Pay</p> <p>The backdated pay accrual was incorrectly calculated. The accrual double counted the effect of the pay award.</p> <p>Risk – The backdated pay award is not correctly accounted for in year expenditure.</p>	<p>SPSO should ensure that any future back dated pay accruals are calculated correctly.</p> <p>Paragraph 21</p>	<p>Noted and agreed.</p> <p>Director</p> <p>In line with annual accounting timetable as agreed.</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>3. Financial Planning</p>	<p>The SPSO should develop a Medium Term Financial Plan, to ensure that the Ombudsman can manage its resources sustainably and deliver services effectively</p>	<p>In Progress</p> <p>Director</p> <p>December 2023</p>

Issue/risk	Recommendation	Agreed management action/timing
4. Workforce Planning	The SPSO should develop a formalised Workforce Plan. Workforce planning should outline the current workforce, the future workforce	In Progress Director December 2023

Appendix 2. Summary of uncorrected misstatements

We report all uncorrected misstatements in the annual report and accounts that are individually greater than our reporting threshold of £6,000.

The table below summarises uncorrected misstatements that were noted during our audit testing and were not corrected in the financial statements. Cumulatively these errors are below our performance materiality level as explained in [Exhibit 1](#). We are satisfied that these errors do not have a material impact on the financial statements.

Narrative	Account areas	Statement of Comprehensive Net Expenditure		Statement of Financial Position	
		Dr	Cr	Dr	Cr
Accounting Misstatements		£0	£0	£0	£0
1. Prior year prepayment	21/22 Prepayment			19,080	
	General Office Running Costs		19,080		
	21/22 Prepayment				19,080
	General Office Running Costs	19,080			

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Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk