

Office of the Commissioner for Public Appointments in Scotland

Report on the 2004-05 Audit

9 December 2005



Audit Scotland, on behalf of the Auditor General for Scotland, is responsible for:

- providing independent reports to the Auditor General and the wider public on how public money is spent, what it achieves and what improvements can be made
- providing independent reports to public sector bodies on their finances, their corporate governance and how they manage their performance and secure value for money
- providing an independent opinion on whether the annual financial statements of public sector bodies have been prepared in accordance with statutory requirements



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Office of the Commissioner for Public Appointments in Scotland Report on the 2004-05 Audit

This report provides the Office of the Commissioner for Public Appointments in Scotland (OCPAS) with a summary of the outcomes from our audit of OCPAS in 2004-05. The report has an Executive Summary followed by three parts that cover: financial position, governance & the internal control environment and a section looking forward.

Executive Summary

Audit Scotland gave the financial statements a clear audit opinion. A significant issue was the resolution of the format of the financial statements, in particular the accounting treatment for grant funding received. In addition we monitored progress in developing arrangements for corporate governance and systems of control. We were content that appropriate progress was made during the year and that appropriate plans are in hand for further development of arrangements.

Introduction

- 1.1 This report summarises the findings from our 2004-05 audit of the Office of the Commissioner for Public Appointments in Scotland (OCPAS). The scope of the audit was set out in our Audit Planning Memorandum which outlined views on the key risks facing OCPAS and described the work we planned to carry out on:
 - financial statements; and
 - governance.
- 1.2 This report completes our audit by giving an overview of the work we carried out and a summary of our key findings. We have structured the main body of the report to cover the two topics listed above, as well as our view on emerging risk areas for 2005-06.
- 1.3 We are grateful for the assistance and co-operation provided by the staff of OCPAS during the course of our audit.

Financial Statements

Our Responsibilities

2.1 Our audit plan sets out our responsibilities in detail. In summary, we audit the financial statements of OCPAS and give an opinion on:

- whether they give a true and fair view of the financial position of OCPAS and its expenditure and income for the period in question;
- whether they have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements; and
- the regularity of the expenditure and receipts.

2.2 We also review the statement on internal control by considering the adequacy of the process put in place by the Accountable Officer to obtain assurances on the overall system of internal control and assess whether disclosures in the statement are consistent with our knowledge of the organisation.

Overall Conclusion

2.3 We have obtained sufficient, relevant, reliable evidence that:

- the financial statements provide a true and fair view of the financial position of OCPAS at 31 March 2005 and of the net expenditure, recognised gains and losses and cash flows for the year; and
- in all material respects the receipts and payments were incurred or applied in accordance with applicable guidance and enactments.

2.4 There were no unadjusted errors in the accounts.

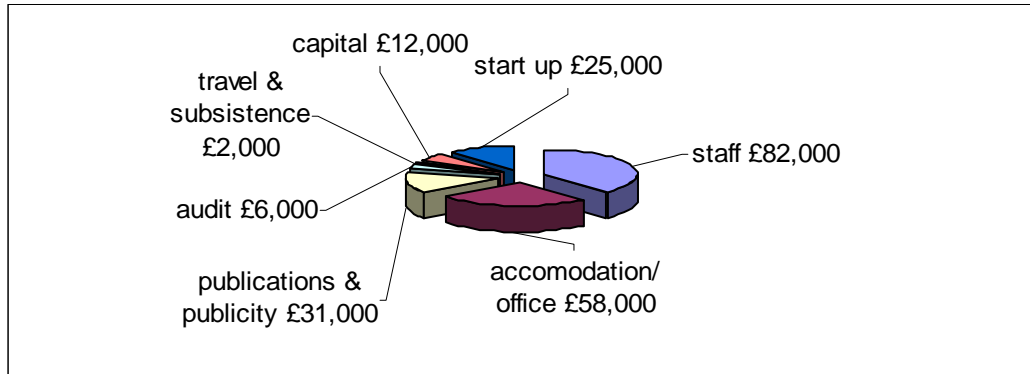
2.5 Our review of the Statement on Internal Control concluded that it complies with the relevant guidance and is not inconsistent with other information we are aware of from our audit.

The Financial Position

2.6 OCPAS's Income and Expenditure account records net expenditure for the first period of operation of £204,000. The capital expenditure for the period was £12,000. The total net expenditure of OCPAS of £216,000 represents an underspend of £237,000 of the approved budget. This reflects the circumstances of the first year of operation, which was a part year.

2.7 The net outturn by category of expenditure is highlighted in the following chart.

OCPAS Net Expenditure 2004-05: Total £216,000



Source: OCPAS accounts 2004-05

Other Issues Arising from the Audit

2.8 The main issue arising from the audit was the accounting treatment of the funding from the Scottish Parliamentary Corporate Body (SPCB):

- whether to treat on a cash basis or accrue funding to match expenditure
- whether to apportion funding between capital and revenue or take it straight to reserves as financing.

2.9 This issue has, over the years, caused considerable debate. The approach for Non Departmental Public Bodies (NDPB's) is that grant funding should be treated on a cash basis and attributed to deferred grant for capital expenditure, with the balance recognised as income in the Income & Expenditure account. This was the approach which was promoted with OCPAS and the other Commissioner bodies because NDPB guidance is the closest model to the Commissioners' circumstances and it was the Scottish Executive's intended approach in issuing the relevant Accounts Direction

2.10 However, through discussions with the Commissioners and their representatives, it became clear that this approach was considered inappropriate. This was because the grant funding received and treated as income was lower than the expenditure recorded on an accruals basis resulting in a deficit on the Income & Expenditure account. The Commissioners considered this might be misinterpreted as their expenditure was within their respective budgets.

2.11 Alternatives were explored given that the Commissioners are not NDPB's and a compromise position of aligning the Commissioners to the guidance applicable to Government Agencies/ Departments emerged. The Commissioner accounts therefore

adopt a similar position to those of the SPCB itself, by taking grant funding straight to reserves. The theoretical basis for this approach is promoted by HM Treasury and can be described in simple terms as:

- grant funding is provided to meet the recipient's cash need and it would be wrong therefore to accrue funding; and
- when funding is provided to meet the overall costs of an organisation they consider this as financing (and therefore to be taken to reserves) rather than income.

Statement on Internal Control

2.12 The Accountable Officer is required to provide a statement on internal control which is signed as part of the Accounts. The statement reflects the operating procedures established in this the first period of operation. It also outlines the arrangements for reviewing effectiveness and the areas to be further developed in the following year. We concluded the disclosures in the statement were appropriate.

Governance & Internal Control

Approach

3.1 Our planned approach to our work on corporate governance and systems of control was outlined in the Audit Planning Memorandum. In essence we assessed the development of systems and procedures over the period OCPAS was establishing these arrangements and were content that appropriate progress was made.

Arrangements for accounting services

3.2 The Commissioner/ Ombudsman bodies, including OCPAS, have had accounting and certain other support functions provided by SPCB up to 31 March 2005. The Commissioners have now taken on these responsibilities themselves, in some cases adopting common approaches. These changes created the potential for disruption in the short term and the need to ensure the appropriate control framework is established. A high level overview across SPCB and Commissioners as part of the 2004-05 audits has confirmed progress in establishing appropriate financial arrangements (financial memorandum, independent accounting, internal audit and audit committee/ advisory board). Arrangements are also in hand to pass over accounting records prepared by SPCB in support of the 2004-05 accounts to facilitate preparation of the 2005-06 accounts. We will follow up these developments as part of the 2005-06 audits.

Looking Forward

Corporate Governance

- 4.1 Audit Scotland plan to review the governance arrangements in operation in the SPCB, against a background of significant developments in corporate governance in the United Kingdom. The review will also consider the Commissioner and Ombudsman bodies, in particular the interface with SPCB.

Best Value

- 4.2 The Scottish Executive are considering the most appropriate way to encourage and embed the principles of Best Value across the wider public sector, with, potentially, further guidance on how Accountable Officers can demonstrate they have applied the principles.

Efficient Government Initiative

- 4.3 The Efficient Government Initiative is a five year programme with the aim of attacking 'waste, bureaucracy and duplication in Scotland's public sector'. The primary objective is to deliver the same services with less money or to enable frontline services to deliver more or better services with the same money. The Efficient Government Plan sets targets to achieve both cash-releasing savings and time-releasing savings. Procurement, including e-procurement, and financial management are seen as key areas to achieving targets. The transparency of savings claimed is an important audit issue.

Next Steps

- 4.4 Audit Scotland will consider the implications of developments in Best Value and the Efficient Government Initiative in drawing up their plans for the 2005-06 audits. Although perhaps not directly part of the arrangements established by the Scottish Executive, SPCB, OCPAS and the other Commissioner bodies will be expected to demonstrate consideration of developments in these areas.