



Office of the Commissioner for Public
Appointments in Scotland

Report on the 2008-09 Audit

20 July 2009

| Contents | | Page |
|-------------------|--|-------------|
| 1 | Executive Summary | 1 |
| 2 | Financial Statements | 3 |
| 3 | Governance | 6 |
| 4 | Performance | 8 |
| 5 | Looking Forward | 10 |
| | | |
| Appendices | | |
| | Appendix A - Action Plan | 10 |
| | Appendix B - Communication of audit matters to those charge with governance | 11 |

1 Executive Summary

Introduction

We have audited the financial statements of the Office of the Commissioner for Public Appointments in Scotland (the Commissioner) for the 2008-09 financial year and examined aspects of the Commissioner's performance and governance arrangements. This report sets out our key findings.

Financial Statements

We intend to give an unqualified opinion on both the financial statements of the Commissioner for 2008-09 and on the regularity of transactions undertaken during the financial year. During the year, the Commissioner incurred resource expenditure of £403k. £2k was received in income resulting in net expenditure of £401k. The Commissioner manages her budget on a cash basis, however, and £419k of funding was received from the Scottish Parliamentary Corporate Body (SPCB). The under spend of £18k is not regarded as material.

Staff costs are the main area of the Commissioner's expenditure and accounted for 50% of total costs during the year, expenditure on independent assessors accounted for 24% of costs, with administration (16%) and property costs (10%) making up the remainder.

The Commissioner's draft financial statements and supporting working papers were presented for audit on 22 June 2009 and were of a high standard. This meant that no audit adjustments were required to be made to the accounts.

Our audit of the Commissioner's financial systems confirms that they continue to operate in a sound control environment. We submitted a detailed report to the Commissioner in May 2009 which made two recommendations for improving internal control arrangements. All recommendations were accepted by management and none related to high risk observations.

We also undertook an additional audit of the Commissioner's pension management arrangements during the year which concluded that adequate arrangements were in place to calculate and pay pensions in accordance with relevant guidance. We noted that there were no significant matters to be brought to the attention of the Commissioner from our review, other than those previously identified regarding the timeliness of the internal audit reports provided by the APAC and to confirm that an Annual Assurance Certificate is no longer issued.

Governance

Overall, we found that the Commissioner's governance arrangements continue to operate well. The Advisory Audit Board and team meetings are used to monitor the organisational risk register, financial performance and progress against the business plan. We note that the Commissioner does not have an internal audit function, and consider this appropriate in the context of the scale of the Commissioner's operations.

Performance

Key achievements in 2008-09 include the launch of **Diversity Delivers**, which is the first equal opportunities strategy for public appointments in Scotland, a number of the report's recommendations have also been implemented, including the establishment of an implementation group, reference groups and a group of role models. The Commissioner also attended and hosted meetings with various bodies to share best practice and services.

Looking Forward

The recent review of Commissioners and Ombudsman by the Scottish Parliament has brought forward proposals for consolidation of some existing bodies. The Parliament has recommended that OCPAS join with the Chief Investigating Officer (CIO) and the Scottish Parliamentary Standards Commissioner (SPSC) in a new Standards Body called the Public Life and Appointments Commission Scotland.

We note that the Scottish Parliament has also recommended that any new Standards Body is designated as a 'body corporate' to address the 'personal liability' issue affecting many Commissioners. A key challenge for the Commissioner will be to plan effectively for the transition to any new body to ensure operational effectiveness is maintained.

The impact of the economic recession on public sector finances is likely to lead to a reduction in public sector funding for the period from 2010-11. It will become increasingly important for all public bodies to demonstrate economy, efficiency, effectiveness and best value in their operations and the Commissioner should ensure her Office has effective plans in place to address future financial pressures.

All public sector bodies will be required to prepare accounts on the basis of International Financial Reporting Standard (IFRS) for accounting periods from 1 April 2009. The Commissioner will be required to prepare 2008-09 IFRS 'shadow accounts' by end November 2009 in compliance with the Scottish Government's timetable, and should ensure she has effective arrangements in place to prepare full IFRS based 2009-10 accounts.

Next Steps

Our findings and recommendations are summarised in an Action Plan (Appendix A) that accompanies this report. The Action Plan has been agreed with the Commissioner and incorporates the Management Team's response to audit recommendations.

The report includes some specific recommendations to strengthen internal controls. It is the responsibility of the Commissioner to decide the extent of the internal control system appropriate to the organisation.

Acknowledgements

We would like to take this opportunity to thank the Commissioner's staff who have been involved in the audit for their assistance and co-operation.

This report is part of a continuing dialogue between the Commissioner and Grant Thornton and is not, therefore, intended to cover every matter which came to our attention. Our procedures are designed to support our audit opinion and they cannot be expected to identify all weaknesses or inefficiencies in the Commissioner's systems and work practices.

The report is not intended for use by third parties and we do not accept responsibility for any reliance that third parties may place on it. The report will be submitted to the Auditor General for Scotland and will be published by him on his website at www.audit-scotland.gov.uk.

Grant Thornton UK LLP

20 July 2009

2 Financial Statements

Our Responsibilities

We audit the financial statements and give an opinion on whether:

- they give a true and fair view, in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made there under by the Scottish Ministers, on the state of affairs of the Commissioner as at 31 March 2009 and of the net expenditure, recognised gains and losses and cash flows for the year then ended
- they, and the part of the Remuneration Report to be audited, have been properly prepared in accordance with the Government Financial Reporting Manual (FReM) and directions made there under by the Scottish Ministers; and
- in all material respects the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers
- information which comprises the management commentary, included with the Annual Report, is consistent with the financial statements.

We also review the Statement on Internal Control by:

- considering compliance with Scottish Government guidance
- considering the adequacy of the process put in place by the Accountable Officer to obtain assurances on systems of internal control assessing whether disclosures in the Statement are consistent with the information emerging from our normal audit work.

Overall Conclusion

We are able to conclude that the Commissioner's financial statements give a true and fair view of the financial position for the period from 1 April 2008 to 31 March 2009 and that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and relevant guidance.

We confirm that information which comprises the management commentary, included with the Annual Report, is consistent with the financial statements.

Standard of accounts and supporting papers

The Commissioner's draft financial statements and supporting working papers were presented for audit on 22 June 2009 and were of a high standard. This meant that no audit adjustments were required to be made to the accounts.

Financial Performance

The Commissioner receives cash funding from the Scottish Parliamentary Corporate Body (SPCB) for her annual budget. Expenditure during the year was £18k lower than the cash budget of £419,000 allocated to the Commissioner's office. This under spend was as a result of delays in the redevelopment of the OCPAS website, postponing work on reviewing the code of practice and the early termination of a part time administration assistant contract.

Staff costs are the main area of the Commissioner's expenditure and account for 50% of total costs during the year, costs associated with independent assessors accounted for 24% of costs, with administration (16%) and property costs (10%) making up the remainder.

A more detailed analysis of the Commissioner's 2008-09 expenditure is shown in figure 1 below:

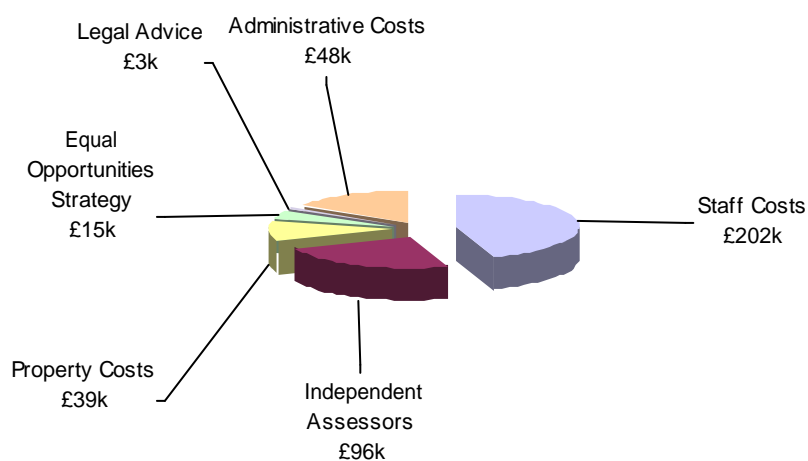


Figure 1 - Analysis of the Commissioner's expenditure

Review of systems of financial control

As part of our 2008-09 audit, we reviewed the Commissioner's systems of financial control covering the following key systems:

- budgetary control
- payroll
- treasury management
- creditor payments

The overall conclusion from our work is that financial systems continue to operate in a sound control environment and can be relied for the purposes of our audit of the financial statements. We submitted a detailed report to the Commissioner in May 2009 which made 2 recommendations for improving internal control arrangements. All recommendations were accepted by management and none related to high risk observations.

During our final audit procedures we identified 2 weaknesses in the financial controls.

1. Sage is closed down once the draft financial statements have been prepared and no reports are generated in terms of the aged creditor report and nominal account analysis, from Sage.

Action Plan 1

2. As part of our audit testing we review journals raised in the year. As the Sage was closed down and there were no manual journal sheets, we were unable to review the journals raised throughout the year and at the year end.

Action Plan 2

Statement on Internal Control

The Statement on Internal Control sets out the arrangements established and operated for risk identification and management, proposed future development of arrangements, and review of effectiveness of the system of internal control.

We are satisfied that the Statement complies with Scottish Government guidance, that the processes put in place by the Accountable Officer (the Commissioner) to obtain assurances on systems of internal control are adequate and that the contents of the Statement are consistent with the information emerging from our normal audit work.

ISA 260: Communication of Audit Matters to Those Charged with Governance

Our responsibilities in relation to the communication of audit matters to those charged with governance are covered in the International Standard on Auditing 260. Outcomes against the requirements of the Standard are reported in Appendix B to this report.

3 Governance

Introduction

Sound corporate governance is central to demonstrating Best Value, and incorporates the way in which an organisation manages its business, determines strategy and objectives and goes about achieving those objectives. It is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of the organisation. Good governance means:

- focusing on the organisation's purpose and on outcomes for citizens and service users;
- performing effectively in clearly defined functions and roles;
- promoting values for the whole organisation and demonstrating the values of good governance through behaviour;
- taking informed, transparent decisions and managing risk;
- developing the capacity and capability of the governing body to be effective; and
- engaging stakeholders and making accountability real.

Overall Conclusion from our 2008-09 audit

Overall, we found that the Commissioner's governance arrangements continue to operate well. The Advisory Audit Board and team meetings are used to monitor the organisational risk register, financial performance and progress against the operational plan.

Financial systems

We note from our audit of the financial systems that the payroll system controls in place are working effectively, procedures are in place to notify the payroll provider of any changes and amendments are processed quickly.

We understand the invoices regarding the payment of assessors are now authorised by the Development Manager (if under £500) or the Commissioner.

Finally our review of the bank and cash controls deemed them working effectively, however it has been agreed that monthly sage reports will be attached to the month end bank statement to improve the ease of reconciliation.

Budgetary Control

We noted that the Commissioner has continued to strengthen arrangements for budgetary control. Spend against the budget is closely monitored on a regular basis at team meetings. The financial reports prepared monitor committed spend as well as the bank balance at each month end.

We understand that the Commissioner has an year end process in place for business planning, directly linked to the budgeting process, the Commissioner and her team review the prior year business plan and assess performance against the plan and which objectives need to be carried forward, the budget is assessed at this time to ensure adequate resources to meet the Commissioner's objectives.

There may be a segregation of duties issue with regards to the monthly monitoring of spending. We recommended, as part of our interim review, that the business manager sends the monthly spend analysis to the Commissioner for review. This has been taken on board by the Commissioner who as of May 2009, meets with the Business Manager to review the spend analysis every month.

Pension arrangements

We also undertook an additional audit of the Commissioner's pension management arrangements during the year which concluded that adequate arrangements were in place to calculate and pay pensions in accordance with relevant guidance. We noted that there were no significant matters to be brought to the attention of the Commissioner from our review, other than those previously stated regarding the timeliness of the internal audit reports provided by the APAC and the fact that there is no longer an Annual Assurance Certificate issued

Personal Liability

The Scottish Parliament has recently considered the matters of the potential personal liability as part of its review of Commissioners and Ombudsman and has brought forward recommendations to address this issue as part of a wider recommendation to create a new Commission from a merger of the existing OCPAS, Chief Investigating Officer (CIO) and the Scottish Parliamentary Standards Commissioner (SPSC) functions.

4 Performance

Introduction

Public audit is more wide-ranging than in the private sector and covers the examination of, and reporting on, performance and value for money issues. As part of our annual audit we are required to plan reviews of aspects of the arrangements to manage performance, as they relate to economy, efficiency and effectiveness in the use of resources.

As Accountable Officer, the Commissioner has a duty to ensure public resources are used economically, efficiently and effectively. Since April 2002 there has also been a duty on Accountable Officers "to ensure arrangements are in place to secure Best Value."

Business Planning

The Commissioner has a rolling 3 year business plan covering 2009-12, but there was also a plan in place covering 2008-11. These plans set targets and outcomes for each financial year. The business plan is linked to the Commissioner's risk register and is used to monitor performance at team meetings. All business plan targets for the 2008-09 year have been achieved except for the following which have been agreed as being carried forward into the 2009-10 year:

- Annual review of policies, procedures and risks (Jan 09). This work has been split into three and will be carried out in May and October.
- New website. This was delayed due to pressure of work and the revised launch date is 3 September 2009 to coincide with OCPAS Chairs training event.
- Review of OCPAS pensions administration. This work was carried out by Grant Thornton Pensions Team in May 2009 and has now been completed.
- A number of Diversity Delivers actions were behind schedule where action was required by the Scottish Government. This resulted in the decision to bring certain items inhouse (see below for further details).

Key achievements in 2008-09 include the launch of **Diversity Delivers** strategy. The majority of the recommendations in the strategy are for the Scottish Government to implement with OCPAS and other public bodies taking responsibility for the other recommendations themselves. We understand that a large number of the short-term recommendations are complete, although the timetable for completion has fallen behind in some cases. In order to address this going forward, OCPAS will be implementing more of the recommendations themselves to ensure that they are completed. The Commissioner is currently working with the Director of Corporate Services at the Scottish Government to clarify the role of the implementation group to ensure recommendations are progressed. The Commissioner will continue to implement the recommendations of the strategy in 2009-10.

Audit of the Public Appointments Process

During 2008-09, the Commissioner worked with the Scottish Government to improve the administration of the public appointments process, she also attended and spoke at a number of events to promote OPCAS and the public appointments process.

OCPAS also regularly survey public bodies involved in appointment rounds to seek views on the appointment process. This allows the Commissioner to monitor performance throughout the year. The main areas highlighted from the 2008-09 year were the application of the principles of proportionality and reappointments.

Best Value

The Commissioner's office is relatively small, with limited management capacity. At present, the Commissioner's approach to best value is restricted to monitoring efficiency in operations, and the attendance at and hosting of meetings with various bodies to share best practice and services. Arrangements are already in place for strategic planning, linked to the budgeting process, and for performance management. During 2009-10 the Commissioner will introduce new methods for monitoring compliance with the code of practice and continue to implement the recommendations set out in *Diversity Delivers*. We have therefore concluded that the approach in place to deliver Best Value is commensurate with the size and scale of the Commissioner's operations.

5 Looking Forward

Financial position

The impact of the economic recession on public sector finances is likely to lead to a reduction in public sector funding for the period from 2010-11. It will become increasingly important for all public bodies to demonstrate economy, efficiency, effectiveness and best value in their operations and the Commissioner should ensure her Office has effective plans in place to address future financial pressures.

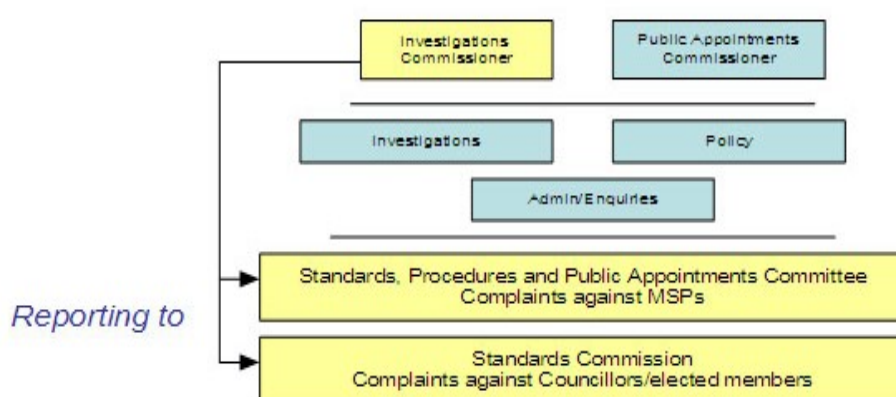
Action Plan 3

Public sector reform

The recent review of Commissioners and Ombudsman by the Scottish Parliament has brought forward proposals for consolidation of existing Commissioner and Ombudsman bodies. The Parliament has recommended that OCPAS join with the Chief Investigating Officer (CIO) and the Scottish Parliamentary Standards Commissioner (SPSC) in a new Standards Body.

The Committee also recommends that the new Standards Body should be a body corporate in the form of a Commission which should be called the Public Life and Appointments Commission Scotland. The new Commission should consist of at least two Commission members with identified members having a lead responsibility for either the combined post of CIO and SPSC or that of OCPAS as outlined below:

Public Life and Appointments Commission Scotland



Action Plan 4

We note that proposals have been brought forward by the Scottish Parliament which would result in the new Commission having a 'body corporate' status. If enacted, this would remove the existing personal liability status of the Commissioner which would improve governance arrangements overall.

A key challenge for the Commissioner will be to plan effectively for the transition to any new body over the coming year.

International Financial Reporting Standards

All public sector bodies will be required to prepare accounts on the basis of International Financial Reporting Standard (IFRS) for accounting periods from 1 April 2009. In preparing for this, the Commissioner re-stated the 2007-08 balance sheet under IFRS and our audit confirmed that an accrual for employee benefits would represent the only substantive change to the Commissioner's accounts.

The Commissioner will, however, be required to prepare 2008-09 full IFRS 'shadow accounts' by end November 2009 in compliance with the Scottish Government's timetable and should ensure it has effective arrangements in place to prepare full IFRS based 2009-10 accounts. In particular, this will require a review of the format of accounts and accounting policies and disclosures.

Action Plan 5

Grant Thornton UK LLP

20 July 2009

Appendix A - Action Plan

| No | Finding | Risk | Recommendation | Management Response | Implementation date |
|---------------------------|---|--------|---|---|---------------------|
| Financial controls | | | | | |
| 1 | Sage is closed down once the draft financial statements have been prepared and no reports are generated from this system. | Low | Sage should be kept open to ensure testing can be performed on nominal ledgers and aged reports. Additionally as part of our audit planning procedures, we will issue a list of all required sage reports which can be generated prior to the closure of the year end sage. | The Business Manger has researched the Sage report function and discovered a method of producing aged reports and reports on nominal ledgers after the year has been closed. The Business Manager will ensure that copies of all the Sage reports listed by Grant Thornton in the audit plan are produced prior to performing the year end in Sage. | Immediate |
| 2 | We were unable to review the journals raised throughout the year and at the year end due to Sage being closed down. | Low | Sage should be kept open to ensure testing can be performed on journal entries, or manual journal records should be maintained. | The Business Manger has researched the Sage report function and discovered a method of producing journal reports after the year has been closed. | Immediate |
| Financial position | | | | | |
| 3 | The impact of the economic recession on public sector finances is likely to lead to a reduction in public sector funding for the period from 2010-11. | Medium | The Commissioner should ensure her Office has effective plans in place to address future financial pressures. | Agreed. The Commissioner will consider public sector funding in preparing her business plan and budget bid for 2010-11. | Immediate |

Appendix A - Action Plan

| No | Finding | Risk | Recommendation | Management Response | Implementation date |
|-----------------------------|---|--------|---|---|---------------------|
| Public sector reform | | | | | |
| 4 | The recent review of Commissioners and Ombudsman by the Scottish Parliament recommends the creation of a new Commission with responsibility for the functions of OCPAS, CIO and SPSC. | Medium | The Commissioner should formally consider how her office will take forward the recommendations from the Scottish Parliament's recent review. | Agreed. The Commissioner is already in contact with the CIO and SPSC as well as the Bill team to discuss how to proceed. | Immediate |
| IFRS | | | | | |
| 5 | The Commissioner is required to prepare 2008-09 full IFRS 'shadow accounts' by end November 2009 and should ensure there are effective arrangements in place to prepare full IFRS based 2009-10 accounts. | Medium | The Commissioner should review her arrangements for complying with the Scottish Government's timetable for re-stating the 2008-09 accounts and preparing 2009-10 accounts under IFRS. | Agreed. The Commissioner has appointed Julie Murphy to assist with the re-stating of 2008-09 accounts under IFRS. The Business Manager will continue to investigate how and where to obtain advice on IFRS. | November 2009 |

Appendix B- Communication of audit matters to those charged with governance

ISA 260 – Communication of audit matters to those charged with governance

Under ISA 260, we are required to consider matters of governance interest that arise from the audit of the financial statements and communicate them with those charged with governance. The areas considered are as follows:

- a) Relationships that may bear on Grant Thornton’s independence and the integrity and objectivity of the audit engagement lead and audit staff;
- b) The overall approach to the audit including any limitations thereon, or any additional requirements;
- c) The selection of, or changes in, significant accounting policies and practices that have, or could have a material effect on the entity’s financial statements;
- d) The potential effect on the financial statements of any material risks and exposures, such as pending litigation, that are required to be disclosed in the financial statements;
- e) Audit adjustments, whether recorded or not by the entity that have, or could have a material impact on the entity’s financial statements; and
- f) Those uncorrected misstatements aggregated by the auditor during the audit that were determined by management to be immaterial both individually and in aggregate to the financial statements as a whole.

Key Findings

We summarise our key audit findings in relation to the above areas.

| Ref | Area | Key Messages |
|-----|--------------|---|
| A | Independence | <p>We are able to confirm our independence and objectivity as auditors and note the following:</p> <ul style="list-style-type: none"> • we are independently appointed by Audit Scotland • we comply with the Auditing Practices Board’s Ethical Standards • we were commissioned to undertake additional assurance work for the Commissioner during the year to provide an audit of pension calculation arrangements. This work was undertaken by a separate team from the engagement team and the fee was £1,500 (excluding VAT). We did not consider that this work impacted on our independence during the year. |

Appendix B- Communication of audit matters to those charged with governance

| Ref | Area | Key Messages |
|-----|---|---|
| B | Approach to the audit | <p>Our approach to the audit was set out in our 2008-09 audit plan. We have planned our audit in accordance with International Auditing Standards and the Code. Other key factors included:</p> <ul style="list-style-type: none"> • we consider the materiality of items in the financial statements both in determining the approach to audit them and in determining the impact of any errors • we have been able to place appropriate reliance on the key accounting systems operating at the Commissioner's office for final accounts audit purposes only. |
| C | Accounting policies and practices | <p>We consider that the Commissioner has adopted appropriate accounting policies in the areas covered by our testing. Accounting policies adopted were in accordance with the Government Financial Reporting Manual (FRM).</p> <p>The Commissioner has considered and confirmed her office remains a going concern. The Commissioner is asked to confirm this through the Letter of Representation.</p> |
| D | Material risks and exposures | <p>The Commissioner has considered and confirmed that her office has no material risks and exposures which should be reflected in the financial statements. The Commissioner is asked to confirm this in the Letter of Representation.</p> |
| E | Audit adjustments and unadjusted errors | <p>We identified some minor disclosure amendments and reclassifications to improve the presentation of the accounts. There are no errors that were not adjusted in the accounts.</p> |

Accounting Issues

There are no significant issues.

Summary of adjusted audit differences

There are no adjusted or unadjusted differences to report.