

Scottish Public Services Ombudsman

Annual Audit Plan 2023/24



 AUDIT SCOTLAND

Prepared for Scottish Public Services Ombudsman

March 2024

Contents

Introduction	3
Annual report and accounts	5
Wider Scope and Best Value	9
Reporting arrangements, timetable, and audit fee	11
Other matters	14

Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2023/24 audit of the Scottish Public Services Ombudsman (SPSO). The main elements of the audit include:

- an audit of the financial statements leading to an independent audit opinion
- audit opinions on regularity and other statutory information published within the annual report and accounts, including the Performance Report, Governance Statement, and the Remuneration and Staff Report
- concluding on the financial sustainability of SPSO and a review of the Governance Statement
- an Annual Audit Report setting out our conclusions.

Respective responsibilities of the auditor and SPSO

2. The [Code of Audit Practice](#) sets out in detail the respective responsibilities of the auditor and SPSO. Key responsibilities are summarised below.

Auditor responsibilities

3. Our responsibilities as appointed auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

4. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the financial sustainability of SPSO and review the Governance Statement. In doing this, we aim to support improvement and accountability.

5. The appointed auditor and engagement lead for SPSO is Tommy Yule, Senior Audit Manager.

The Scottish Public Services Ombudsman's responsibilities

6. SPSO is responsible for maintaining adequate accounting records and internal controls, and preparing financial statements for audit that give a true and fair view. It is also required to produce other reports in the annual report and accounts in accordance with statutory requirements and applicable guidance.

7. SPSO has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation, and establishing effective arrangements for governance, propriety, and regularity that enable them to deliver its objectives.

Adding value

8. We aim to add value by:

- tailoring audit work to the circumstances of SPSO and the audit risks identified;
- being constructive and forward looking; providing independent conclusions;
- attending meetings of the Advisory Audit Board (AAB); and
- by recommending and encouraging good practice.

9. In so doing, we will help SPSO promote improved standards of governance, better management and decision making, and more effective use of resources.

Annual report and accounts

Introduction

10. The annual report and accounts are an essential part of demonstrating SPSO's stewardship of resources and its performance in the use of those resources.

11. Appointed auditors are required to perform an audit of the financial statements, consider other information within the annual report and accounts, and express a number of audit opinions in an Independent Auditor's Report in accordance with International Standards on Auditing (ISAs) in the UK, Practice Note 10 from the Public Audit Forum which interprets the ISAs for the public sector, and guidance from Audit Scotland.

12. We focus our work on the areas of highest risk. As part of our planning process, we perform a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

13. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2023/24 audit

14. We assess materiality at different levels. The materiality values for SPSO are set out in [Exhibit 1](#).

Exhibit 1

2023/24 Materiality levels for the Scottish Public Services Ombudsman

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of SPSO's operations. For the year ended 31 March 2024, we have set our materiality at 1.9 per cent of gross expenditure based on the audited financial statements for 2022/23.	£133,000
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality,	£98,000

this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 74 per cent of planning materiality.

Reporting threshold – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. We have set this threshold at 5 per cent of planning materiality.	£6,500
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Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. Our risk assessment draws on our cumulative knowledge of SPSO, its major transaction streams, key systems of internal control, and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees, and a review of supporting information.

16. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management, and where relevant, report them to those charged with governance.

17. Based on our risk assessment process, we identified the following significant risk of material misstatement to the financial statements. This is a risk which has the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, management's sources of assurance over the risk, and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2023/24 Significant risk of material misstatement to the financial statements

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in ISA (UK) 240, management is in a unique position to perpetrate fraud because of</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</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. Detailed testing of journal entries 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.

Significant risk of material misstatement	Management's sources of assurance	Planned audit response
management's ability to override controls that otherwise appear to be operating effectively.		<ul style="list-style-type: none"> • Focussed testing of accounting accruals and prepayments.

Source: Audit Scotland

18. As set out in ISA (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

19. We have rebutted this risk as funding received from the Scottish Parliamentary Corporate Body is clearly communicated and can be readily agreed to third party confirmations. In addition, SPSO's other income stream is not material and we have concluded there is limited opportunity or incentive to manipulate the recognition of income in the financial statements.

20. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition.

21. We have rebutted this risk as the main expenditure streams of SPSO can be readily forecast based on a predictable pattern of spend and mainly comprise a high volume of relatively low value items. We also consider there to be limited incentive and opportunity for the manipulation of expenditure recognition in the financial statements.

22. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Regularity

23. Auditors are required by the Public Finance and Accountability (Scotland) Act 2000 to report on whether expenditure and income were incurred or applied, in all material respects, in accordance with applicable enactments and guidance issued by the Scottish Ministers (generally referred to as the regularity opinion).

24. We will adopt an integrated audit approach to meeting this responsibility and use work on the audit of the financial statements supplemented by additional testing for any irregular transactions, where necessary.

Wider Scope and Best Value

Introduction

25. The Code of Audit Practice sets out the four areas that frame the wider scope of public sector audit. This requires auditors to consider and conclude on the effectiveness and appropriateness of the arrangements in place for each wider scope area in audited bodies.

26. However, paragraphs 83 and 85 to 86 of [the Code of Audit Practice](#) address a more limited audit of wider-scope areas for any public bodies that are less complex owing to their size and limited financial activity (referred to as Less Complex Bodies).

27. Paragraph 27 of the Supplementary Guidance sets out the quantitative criteria that defines a less complex body. SPSO's gross revenue, gross assets and gross liabilities do not breach the criteria level (£10.2m). In addition, there are no qualitative reasons that would preclude the less complex approach to be taken. In light of this we plan to apply the Less Complex Body approach of the Code to the 2023/24 audit of SPSO.

28. In summary, the wider scope areas for less complex bodies are:

- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the medium (two to five years) to longer term (longer than five years).
- **Governance Statement review** – this will be carried out as part of our audit of the financial statements. We will express our opinion in the Independent Auditors Report.

Wider scope risks

29. We have not identified any wider scope audit risks as part of our planning work.

30. Our planned work on wider scope is risk based and proportionate. In addition to local risks, we may be asked by the Auditor General for Scotland to consider specific risk areas which are impacting the public sector as a whole. We have not been asked to consider specific risks for 2023/24 audits.

Best Value

31. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that Accountable Officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within SPSO.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

32. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft reports will be shared with the relevant officers to confirm factual accuracy.

33. We will provide:

- an Independent Auditor's Report to SPSO, the Scottish Parliament, and the Auditor General for Scotland setting out our opinions on the annual report and accounts
- SPSO and the Auditor General for Scotland with an Annual Audit Report containing observations and recommendations on significant matters which have arisen during the audit and conclusions on wider scope areas.

34. [Exhibit 3](#) outlines the target dates for our audit outputs and we aim to issue the independent auditors report by 31 October 2024.

Exhibit 3 2023/24 Audit outputs

Audit Output	Target date	Advisory Audit Board Date
Annual Audit Plan	15/03/2024	22/03/2024
Independent Auditor's Report	20/09/2024	27/09/2024
Annual Audit Report	20/09/2024	27/09/2024

Source: Audit Scotland



35. All Annual Audit Plans and the outputs detailed in [Exhibit 3](#), and any other outputs on matters of public interest, will be published on our website: www.audit-scotland.gov.uk.

Timetable

36. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 4](#) that has been discussed with management.

37. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 4 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	21 st June 2024
Latest date for final clearance meeting	5 th July 2024
Issue of draft Letter of Representation and proposed Independent Auditor's Report	26 th July 2024
Agreement of audited and unsigned annual report and accounts	26 th July 2024
Issue of Annual Audit Report to those charged with governance.	20 th September 2024
Signed Independent Auditor's Report	27 th September 2024

Source: Audit Scotland

Audit fee

38. In determining the audit fee, we have taken account of the risk exposure of SPSO and the planned management assurances in place. Fee levels are also impacted by inflation which increases the cost of audit delivery. The proposed audit fee for 2023/24 is £26,180 as set out in [Exhibit 5](#).

Exhibit 5 Audit fees (including VAT)

Fee component	Fees (£)
External Auditor Remuneration	32,740
Pooled costs	350

Fee component	Fees (£)
Sectoral Cap Adjustment	- 6,910
Total 2023/24 fee	26,180

Source: Audit Scotland

39. In setting the fee for 2023/24, we have assumed that SPSO has effective governance arrangements and will prepare a comprehensive and accurate set of annual report and accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

40. It is the responsibility of SPSO to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

41. While we are not planning to place formal reliance on the work of internal audit in 2023/24, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

42. The appointed auditor is independent of SPSO in accordance with relevant ethical requirements, including the Financial Reporting Council's Ethical Standard. This standard imposes stringent rules to ensure the independence and objectivity of auditors.

43. Audit Scotland has robust arrangements in place to ensure compliance with Ethical Standard including an annual *'fit and proper'* declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

44. The Ethical Standard requires auditors to communicate any relationships that may affect the independence and objectivity of the audit team. I am not aware of any such relationships pertaining to the audit of SPSO.

Audit Quality

45. Audit Scotland is committed to the consistent delivery of high-quality public audit. Audit quality requires ongoing attention and improvement to keep pace with external and internal changes. A document explaining the arrangements for providing assurance on the delivery of high-quality audits is available from the [Audit Scotland website](#).

46. The International Standards on Quality Management (ISQM) applicable to Audit Scotland for 2023/24 audits are:

- ISQM (UK) 1 which deals with an audit organisation's responsibilities to design, implement and operate a system of quality management (SoQM) for audits. Our SoQM consists of a variety of components, such as: our governance arrangements and culture to support audit quality, compliance with ethical requirements, ensuring we are dedicated to high-quality audit through our engagement performance and resourcing arrangements, and ensuring we have robust quality monitoring arrangements in place. Audit Scotland carries out an annual evaluation of our SoQM and has concluded that we comply with this standard.

- ISQM (UK) 2 which sets out arrangements for conducting engagement quality reviews, which are performed by senior management not involved in the audit to review significant judgements and conclusions reached by the audit team, and the appropriateness of proposed audit opinions of high-risk audit engagements.

47. To monitor quality at an individual audit level, Audit Scotland also carries out internal quality reviews of a sample of audits. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) carries out independent quality reviews.

48. Audit Scotland may periodically seek your views on the quality of our service provision. The team would also welcome feedback more informally at any time.

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility

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