

NORTHERN IRELAND ASSEMBLY

AUDIT COMMITTEE

REVIEW OF GOVERNANCE AND ACCOUNTABILITY ARRANGEMENTS FOR THE NORTHERN IRELAND AUDIT OFFICE AND THE NORTHERN IRELAND PUBLIC SERVICES OMBUDSMAN

SUBMISSION OF DAVID WATT, MEMBER OF THE ADVISORY AUDIT BOARD OF THE SCOTTISH PUBLIC SERVICES OMBUDSMAN

Introduction

1. This submission is made in response to the letter of 23 April 2021 from the Chairperson of the Audit Committee of the Northern Ireland Assembly in connection with the Audit Committee's review of the audit and governance arrangements for the Northern Ireland Audit Office (NIAO) and the Northern Ireland Public Services Ombudsman (NIPSO). To inform its consideration of the governance and accountability arrangements for the NIPSO, the Audit Committee has indicated an interest in hearing about the audit and risk committee models (or equivalents) in other jurisdictions.
2. I am a Member of the Institute of Chartered Accountants of Scotland and the Chartered Institute of Public and Accountancy. Until 2014 I was in professional practice with KPMG where my client work included audit and assurance work with a diverse range of publicly-funded and not-for-profit bodies. I now hold non-executive appointments at a number of organisations, including as a member or chair of audit and risk committees.
3. I have been a member of the Scottish Public Services Ombudsman Advisory Audit Board (SPSO AAB) since 2018.
4. In addition to this introduction, my submission is in three parts:
 - Appointment background and context;
 - Scottish Public Services Ombudsman; and
 - Commentary and response to specific areas of interest.

Appointment background and context

5. The Scottish Parliamentary Corporate Body (SPCB) was established by the Scotland Act 1998 and is a body corporate. The members of the SPCB are the Presiding Officer and at least four Members of the Scottish Parliament appointed in accordance with standing orders. The SPCB provides the Scottish Parliament, or ensures the Parliament is provided with, the property, staff and services that it requires.
6. As a key feature of the Scottish Parliament's governance arrangements, the SPCB has established an Advisory Audit Board (AAB). Its main purpose is to provide advice to the Clerk / Chief Executive of the Parliament and, where appropriate, the SPCB on finance, audit, risk and governance matters. The AAB comprises three independent members¹ (one of whom is chair) – appointed by open competition – and two members of the SPCB.
7. The Scottish Parliament is statutorily responsible for nominating to HM The Queen a number of individuals for appointment as Officeholders. The SPCB itself is also statutorily responsible for a number of Officeholder appointments. The SPCB sets the terms and conditions of appointment of each Officeholder and, with the exception of the Auditor General for Scotland, provides them with their annual budget.
8. In addition to contributing to the effective governance of the Scottish Parliament, the independent members of the AAB also contribute to the effective governance of the Officeholders through membership of an Advisory Audit Board established by each Officeholder. The appointment terms for the SPCB AAB include expectations as to time commitment to both the SPCB AAB and those of the Officeholders. A daily fee is payable by the SPCB for both its AAB and those of the Officeholders; where payable in respect of the Officeholders, it is not recharged.
9. Assignment to each advisory audit board is by the chair of the SPCB AAB. The assignment to each advisory board is however viewed as an independent appointment; while some observations to enhance Officeholder governance may

¹ Four between 2018 and 2021

arise, there is no accountability to the SPCB AAB for the work of each Officeholder's advisory audit board.

Scottish Public Services Ombudsman

10. The Scottish Public Services Ombudsman² has a wide remit, covering a variety of functions and services in distinct areas of statutory function:
 - the final stage for complaints about most devolved public services in Scotland including councils, the health service, prisons, water and sewerage providers, Scottish Government, universities and colleges;
 - specific powers and responsibilities to publish complaints handling procedures, and monitor support best practice in complaints handling;
 - Independent Review Service for the Scottish Welfare Fund with the power to overturn and substitute decisions made by councils on community care and crisis grant applications; and
 - Independent National Whistleblowing Officer for the NHS in Scotland (INWO) – the final stage for complaints about how the NHS handles whistleblowing concerns and the treatment of whistleblowers. This includes a duty to publish whistleblowing principles and procedures, and to monitor and support whistleblowing practice.
11. The Ombudsman has been designated as Accountable Officer by the SPCB for the use of public funds and further specific duties. In support of this, the Ombudsman has developed and instituted a governance framework, set out in a governance and risk management handbook, together with associated monitoring and reporting systems to ensure, and provide assurance, that these systems operate effectively.
12. The governance framework is supported by a scheme of internal control, a series of protocols and policies through which the Ombudsman demonstrates discharge of responsibilities as Ombudsman and Accountable Officer. It also demonstrates

² Scottish Public Services Ombudsman Act 2002

the assurances provided to the Ombudsman and the external scrutiny to which the role is subject.

13. The scheme of internal control is supported by a risk management policy, strategic risk register and operational risk register. These define how risk is monitored and managed.
14. The effectiveness of the scheme – and the robustness of the assurances it provides – is monitored and managed through:
 - periodic review of the definition, relevance, and accuracy of the measures, policies and protocols in place;
 - statements of assurance from delegated officers;
 - implementation of appropriate and proportionate sanctions, which are set out clearly in policies, procedures and protocols, and brought to the attention of all staff, as required;
 - checking progress through reporting on achievement against strategic and business plans, individual projects and *ad hoc* work programmes; and
 - statements of assurance from external parties such as the AAB, internal audit and external audit.
15. The governance framework provides for the establishment of a leadership team, chaired by the Ombudsman. The leadership team is responsible for:
 - supporting the Ombudsman in setting the strategic direction of the SPSO;
 - supporting the Ombudsman in the exercise of duties and responsibilities by developing and delivering the annual business plan to deliver the SPSO strategic plan;
 - giving strategic and operational leadership to the organisation at all levels; and
 - holding the organisation accountable for performance.
16. While the designated leadership team provides support for governance, the establishment of the SPSO as an Officeholder necessarily means that there is no

board or similar comprising executive and non-executive members. The Ombudsman has therefore established an advisory audit board (AAB) to perform a function similar to that of an audit committee, albeit it is advisory in nature and reporting is solely to the Ombudsman as Officeholder. The main purpose of the AAB is to provide advice to the Ombudsman (and leadership team) on the SPSO's standard of corporate governance and internal control.

17. The AAB considers matters of governance, audit and internal control for the SPSO. In particular, the AAB provides confirmation for the Ombudsman on whether the necessary assurances required for the signing of the governance statement contained within the annual report and accounts have been provided.
18. The AAB specifically considers and advises on:
 - the adequacy of the arrangements for ensuring sound governance and internal control;
 - the assessment and management of business risk;
 - the planned activity of internal audit and results of its work;
 - the planned activity of the external auditor and results of its work, particularly in relation to the SPSO's annual report and accounts;
 - the adequacy of management responses to issues identified by audit activity and the arrangements for monitoring the implementation of agreed recommendations; and
 - other sources of assurance relating to the corporate governance requirements of Parliament such as value for money.
19. The AAB reports to the Ombudsman annually and other such times as it considers necessary. The AAB is also available to advise the Ombudsman and leadership team on any significant matter as it arises.

Commentary and response to specific areas of interest

20. The remit for the SPSO AAB provides for up to four members, with two being a quorum, one of whom is designated as the AAB chair. In recent years, the AAB has operated with three members and, currently, all three of those members

have been drawn from the independent membership of the SPCB AAB. Prior to this, membership of the AAB was appointed directly by the Ombudsman, but it is understood that the skills and experience available through the SPCB AAB appointments process has meant that this this particular approach to membership appointment could be discontinued.

21. A copy of the latest iteration of the remit for the AAB is annexed; performance against its remit is undertaken by the AAB annually.
22. In my experience, while it would be possible to find more detailed remits as to how an organisation's audit committee might discharge its responsibilities, there is, again in my view, a broad alignment between the AAB remit and those for audit committees elsewhere. This reflects that the Ombudsman's responsibilities are defined by statute and that the associated governance processes are not unduly complex. The avoidance of too much granularity means that the AAB can take a more holistic approach to its work in consideration of governance and internal control.
23. 'Risk' is included within the remit, again reflective of the practice in many organisations, albeit it is recognised that, for some organisations, it is appropriate that 'risk' is overseen by a separate committee.
24. Again, in contrast to some other organisations, but in line with many public sector bodies in Scotland, the remit does not provide for the AAB to have a role in the appointment of the external auditors, this being undertaken by the Auditor General for Scotland. The AAB does however meet with the external auditor to discuss the planned approach to that year's audit and to hear the outcomes of the work and in this way mirrors what would be the practice in audit committees.
25. In recent years it has been the practice of the AAB to meet on three occasions during the year, with the calendar organised to provide optimum input at the most appropriate point in the cycle of the year's activity. One meeting tends to focus solely on the content of the SPSO's draft annual report and accounts, including the sources of assurance to the Ombudsman as Accountable Officer. This is in advance of the submission of the draft annual report and accounts to the external auditor.
26. Each meeting of the AAB is attended by the Ombudsman and members of the leadership team, together with, as appropriate, representatives of the internal

and external auditors. There is an opportunity for the members of the AAB to meet with the Ombudsman privately to offer advice on any matters of concern and use has been made of this facility.

27. The AAB is updated on financial and operational performance – including any service developments – at each of its meetings so that it can take an informed view on internal control arrangements and the risk profile of the SPSO.
28. At each meeting, the AAB considers the arrangements for identifying, assessing and managing risk, focussed in particular on those areas identified as ‘high’ risk. In relation to strategic processes for developing controls, managing risk and ensuring sound governance during 2020-21, the AAB sought to assure itself that:
 - the risk management culture was appropriate;
 - there was a comprehensive process for identifying and evaluating risk and for reviewing what level of risk was defensible;
 - the risk register accurately records and reflects the risk identified by the SPSO;
 - management had an informed and realistic view of the effectiveness of controls;
 - risk management was being implemented in 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 control were effective; and
 - the Accounting Officer’s annual governance statement was realistic and supported by meaningful evidence.
29. While is appropriate to the position of the Ombudsman as an Officeholder that the work of the AAB is, on a technical basis, advisory in nature, my experience is that all such advice in discharge of the AAB remit is taken on board and adjustments made, as required, to the governance and internal control arrangements.

30. While the AAB has no role in challenging the development of policy (which is in any event determined and constrained by statute), there have been a range of opportunities in recent years where the AAB has provided input to the work of SPSO which might illustrate that the AAB provides a 'challenge' function:
- balance of funding resources against performance expectations;
 - financial sustainability and associated risks – application / interpretation of Scottish Government guidance;
 - internal audit – scope of work programme and change of service providers;
 - annual report – balance / content of narrative;
 - assessment of fraud risk;
 - relocation to new offices – project management, project costs and associated accounting, business continuity plan testing; and
 - establishment of Independent National Whistleblowing Officer for NHS staff – resourcing, re-organisation, financial memorandum, volume / resource risks.
31. It is important that the AAB adopts and remains pro-active in its approach. This is particularly important at the current time in relation to the final bullet above referring to the significant extension to the jurisdiction of the Ombudsman from 2021 and the challenges which will flow from that. While the AAB believes the SPSO is well placed overall to respond to these challenges, it has noted the significant and developing risk of an increased workload from both its current and agreed extensions to its jurisdiction.
32. While it is appropriate that any remit should remain responsive to changing circumstances, there are no areas within the current AAB remit where I consider that the scope of the AAB's work should be broadened or curtailed. This is supported by the AAB's own evaluation of its performance against the remit using an audit committee self-assessment checklist (most recently in March 2021) and the members' conclusion of satisfaction with the AAB's performance.
33. The AAB recognises that a strength of SPSO and its own work is the level and quality of engagement by the Ombudsman and management with it. The AAB continues to support the Ombudsman in meeting the governance and accountability requirements of the Office; the AAB pro-actively monitors and advises the Ombudsman in relation to progress and any concerns across all areas of its remit.

34. Minutes of AAB meetings are published on the SPSO website following finalisation; supporting papers considered by the AAB are not routinely published.
35. As noted earlier, the AAB prepares an annual report of its work in relation to each financial reporting period which is submitted to the Ombudsman as Accountable Officer, summarising the work of the AAB and the conclusions reached.

David Watt

24 May 2021

SPSO Advisory Audit Board

Extracted from SPSO Governance and risk management Handbook, 10 May 2021

AAB Purpose

1. The Ombudsman has established an AAB to perform a function similar to that of an Audit Committee. The main purpose of the AAB is to provide advice to the Ombudsman (and LT) on the SPSO's standard of corporate governance and internal control.
2. The AAB considers matters of governance, audit and internal control for the SPSO. In particular, the AAB provides confirmation for the Ombudsman on whether the necessary assurances required for the signing of the Governance Statement contained within the annual accounts have been provided.
3. The AAB specifically considers and advises on:
 - 3.1. the adequacy of the arrangements for ensuring sound governance and internal control
 - 3.2. the assessment and management of business risk
 - 3.3. the planned activity of Internal Audit and results of its work
 - 3.4. the planned activity of the External Auditor and results of its work, particularly in relation to the SPSO's Annual Report and Accounts
 - 3.5. the adequacy of management responses to issues identified by audit activity and the arrangements for monitoring the implementation of agreed recommendations, and
 - 3.6. other sources of assurance relating to the corporate governance requirements of the Parliament such as value for money.
4. The AAB reports to the Ombudsman annually and other such times as it considers necessary.
5. The AAB also advises the Ombudsman and LT on significant matters as they arise.

AAB Frequency

6. The AAB will meet a minimum of twice a year, more often at the discretion of the Chair and in consultation with the Ombudsman.

AAB membership

7. The AAB will have up to four members, appointed by the Ombudsman based on their expertise and experience in governance, audit and public services. Committee Members shall be appointed for an initial period of three years with the potential to extend membership for a further two years at the Ombudsman's discretion.
8. The current membership is:

- 8.1. Jean Couper CBE (Chair) (Member 2017, Chair 2018)
- 8.2. David Watt (Member 2019)
- 8.3. Andrew Shaw (Member 2019)
9. AAB meetings are normally attended by the LT, the External Auditor (as appointed by the Auditor General for Scotland) and the Internal Auditor. Other members of the SPSO may attend from time to time to assist the AAB in its considerations.

AAB Quorum

10. Two members of the AAB must be present to be quorate.
11. Meetings will normally be chaired by the AAB Chair. If the Chair is unavailable meetings will always be chaired by a member of the AAB at the request of the Chair.

AAB Agenda

12. The AAB will follow a set agenda, based on the duties at paragraph 3 above.
13. The agenda, venue and time of meeting must be published by the secretariat no later than seven working days before the meeting. Supporting papers will normally be issued at the same time. Papers can only be submitted late with the Chair's permission.
14. This may be changed and the reasons and new agenda recorded in minutes.
15. The Chair may vary the agenda on a meeting-by-meeting basis to meet particular needs.

AAB Minutes

16. Draft minutes will be circulated by the secretariat within seven working days of the meeting. They will be agreed at either the next AAB meeting, an operational meeting, or by email as required. The method of sign-off shall be agreed at the end of each meeting.
17. Minutes will be drafted in such a way as to minimise inclusion of personal data.
18. The secretariat will arrange publication of the signed minutes on the SPSO's web-site, appropriately redacted to protect personal data or in line with exemptions that would apply to the information under freedom information legislation. Where information is redacted, the reference to relevant sections of legislation should be included.