Risk Management Authority

2023/24 Annual Audit Report



AUDIT SCOTLAND

Prepared for the Risk Management Authority and the Auditor General for Scotland

June 2024

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Key messages

2023/24 annual report and accounts

1 Our audit opinions on the annual report and accounts are unmodified.

2 Risk Management Authority's (RMA's) financial statements and related reports are free from material misstatement.

3 Key risks arising from the audit of RMA's accounts were included in our 2023/24 Annual Audit Plan. There are no significant matters from that work to draw to the attention of the Board.

4 Expenditure and income were incurred in accordance with applicable enactments and guidance.

5 The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation, and directions made by Scottish Ministers.

Wider-scope

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

7 RMA achieved an underspend of £73,000 in 2023/24 and is currently forecasting an overspend of £244,000 for 2024/25.

8 Budget forecasts indicate that RMA is facing a potential cumulative funding gap of £0.857 million by the end of 2028/29. RMA expenditure is mainly staff costs and without sufficient funding the RMA may be unable to deliver certain services required by legislation.

9 Staffing resourcing pressures continue to impact the operation of key internal controls within the finance function.

10 RMA has appropriate arrangements in place to secure Best Value.

Introduction

1. This report summarises the findings from the 2023/24 annual audit of Risk Management Authority (RMA).

2. The scope of the audit was set out in an Annual Audit Plan presented to the 26 February 2024 meeting of the Audit and Assurance Committee. This Annual Audit Report comprises:

- significant matters arising from an audit of the RMA's annual report and accounts
- conclusions on financial sustainability as required by the *Code of Audit Practice 2021*.

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

Audit appointment

4. I, Mark Ferris have been appointed by the Auditor General as auditor of RMA for the period from 2022/23 until 2026/27. The 2023/24 financial year was the second of my five-year appointment

5. My team and I would like to thank Audit and Assurance Committee members, executive directors, and finance staff, for their cooperation and assistance in this year and we look forward to working together constructively over the remainder of the five-year appointment.

Responsibilities and reporting

6. RMA 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. RMA is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity.

7. My responsibilities as 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 (ISAs)

8. The weaknesses or risks identified in this report are only those which have come to the attention of the audit team 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.

9. This report contains an agreed action plan at Appendix 1 setting out specific recommendations, responsible officers, and dates for implementation.

Auditor Independence

10. I can confirm that the audit team comply with the Financial Reporting Council's Ethical Standard. I can also confirm that we have not undertaken any non-audit related services and therefore the audit fee of £10,370 as set out in my 2023/24 Annual Audit Plan remains unchanged. I am not aware of any relationships that could compromise our objectivity and independence.

11. The annual audit adds value to RMA by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice identified.

Part 1. Audit of 2023/24 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 public funds.

Main judgements

Audit opinions on the annual report and accounts are unmodified.

Expenditure and income were incurred in accordance with applicable enactments and guidance.

The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation, and directions made by Scottish Ministers.

Audit opinions on the annual report and are unmodified

12. The Audit and Assurance Committee approved the annual report and accounts for RMA for the year ended 31 March 2024 on 24 June 2024. 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 Government Financial Reporting Manual
- the Performance Report and Governance Statement were all consistent with the financial statements and properly prepared in accordance with the Government Financial Reporting Manual.

Overall materiality was assessed on receipt of the annual report and accounts as £38,000

13. Broadly, the concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the accounts, and hence impact their opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

14. My initial assessment of materiality was carried out during the risk assessment 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	£38,000
Performance materiality	£29,000
Reporting threshold	£1,900

Source: Audit Scotland

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

16. 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 75 per cent of overall materiality, reflecting that there were no misstatements identified in the prior year audit and no significant issues were identified during our risk assessment procedures.

17. It is my responsibility to request that all misstatements are corrected, other than those below the reporting threshold. The final decision on making the correction lies with those charged with governance.

Significant findings and key audit matters

18. Under International Standard on Auditing (UK) 260, we communicate significant findings from the audit to the Audit and Assurance Committee, as those charged with governance, including our view about the qualitative aspects of RMA's accounting practices.

19. The Code of Audit Practice also requires me to highlight key audit matters which are defined in ISA (UK) 701 are those matters judged to be of most significance.

20. I have no significant issues to report from the audit.

Audit work responded to the risks of material misstatement identified in the annual report and accounts

21. My team and I have obtained audit assurances over the identified significant risks of material misstatement to the annual report and accounts. Exhibit 2 sets out the significant risks of material misstatement to the financial statements identified in my 2023/24 Annual Audit Plan. It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 2

Identified Significant risks of material misstatement in the annual report and accounts

Audit risk	Assurance procedure	Results and conclusions
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.	Assessed the design and implementation of controls over journal entry processing. Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. We tested journals throughout the year as well as year-end and post-closing journals with a focus on significant risk areas. Evaluated significant transactions outside the normal course of business.	We assessed the design and implementation of controls over journal entry processing. Actions have been taken in response to the prior year audit recommendation to implement an element of segregation of duties relating to journal processing however, RMA continues to be impacted by staffing resourcing issues. See Paragraph 36 and Recommendation 1 Due to the ongoing staffing pressures at RMA, we carried out an enhanced assessment of journals throughout the year as part of our testing. No significant issues were identified from our detailed testing of journals. There were no significant transactions outside the normal course of business.

Audit risk	Assurance procedure	Results and conclusions
	Assessed the adequacy of controls in place for identifying and disclosing related party transactions in the financial statements.	We did not identify any issues with the controls in place for identifying and disclosing related party transactions.
	Reviewed accounting estimates made during the financial year.	No issues were identified with regards to accounting estimates.
	Substantively tested income and expenditure transactions around the year-end to confirm accounted for in the correct financial year.	No issues were identified in the testing of income and expenditure transactions around the year-end
	Focussed testing of accounting accruals and prepayments.	No issues were identified in the audit testing of accruals and prepayments.

Source: Audit Scotland Annual Audit Plan 2023/24

22. In addition, I identified "areas of audit focus" in my 2023/24 Annual Audit Plan where I considered there to be other risks of material misstatement to the financial statements. The areas of specific audit focus were:

- A review of the accounting for leases in accordance with IFRS 16 in respect of the impact on assets, liabilities, and disclosures within the annual report and accounts.

23. My team and I kept these areas under review throughout the audit. Based on the findings of the audit procedures performed, there are no matters which we need to bring to your attention.

There were no identified misstatements

24. There were no misstatements identified that exceeded our reporting threshold.

25. There are no unadjusted errors to report.

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

26. The unaudited annual report and accounts were received in line with our agreed audit timetable on 13 May 2024.

Some progress was made on prior year recommendations

27. RMA has made some progress in implementing the prior year audit recommendations. 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 RMA and the services that it delivers over the medium to longer term

Conclusion

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

RMA achieved an underspend of £73,000 in 2023/24 and is currently forecasting an overspend of £244,000 for 2024/25.

Budget forecasts indicate that RMA is facing a potential cumulative funding gap of £0.857 million by the end of 2028/29. RMA expenditure is mainly staff costs and without sufficient funding the RMA may be unable to deliver certain services required by legislation.

Staffing resourcing pressures continue to impact the operation of key internal controls within the finance function.

RMA has appropriate arrangements in place to secure Best Value.

RMA operated within its budget allocation for 2023/24

28. The main financial objective for RMA is to ensure that the financial outturn for the year is within the budget allocated by the Scottish Government.

29. RMA had an underspend of £73,000 on a budget of £1,992,000 and its performance against its Departmental Expenditure Limit (DEL) is shown in Exhibit 3. This is primarily due to ongoing staff vacancies within the organisation.

Exhibit 3

Performance against DEL in 2023/24

Performance	Initial budget £m	Final budget £m	Actual drawdown £m	Over/(under) spend £m
Resource DEL	2.005	1.992	1.919	(0.073)

Source: Audited Annual Report and Accounts/ Budget Allocation and Monitoring Letter 2023/24

RMA has a medium-term financial plan in place

30. RMA is funded directly by Grant in Aid received from the Scottish Government. Funding from the Scottish Government is RMA's sole source of income and there is more certainty over future funding streams than for some other public-sector organisations who are involved in income generating activities. Therefore, the focus for RMA is achieving a balanced financial plan to remain within their annual allocation.

31. In December 2023, the Board approved an updated 5-Year Financial Plan, using the expected 2024/25 funding level as a baseline, and extending four years beyond that to financial year 2028/29.

32. The 5-Year Financial Plan forecasts annual expenditure increasing by £0.349 million between 2024/25 and 2028/29, with the cumulative funding deficit forecast as being £0.857 million.

33. Scottish Government published its 2024-25 budget on 19 December 2023 which confirmed an allocation of funding of £2.007 million from the Sponsor Department. This represented an 0.75 per cent increase on the prior year. Based on this, RMA is forecasting an overspend of £244,000 for 2024/25.

34. RMA have been in regular discussions with the sponsor department with regards to this budget shortfall and business cases for additional funding to support their activities. The sponsor department has confirmed they remain committed to supporting the business cases and these have been submitted to the Cabinet Secretary for approval.

35. RMA's expenditure is mainly staff costs and related expenditure, it is acknowledged that potential for reducing expenditure is limited, without impacting on its ability to deliver a growing range of services required by legislation.

Staffing resourcing pressures continue to impact the operation of key internal controls within the finance function

36. We carried out a review of the key controls within the financial systems used by RMA during our audit and considered the progress made with regards to recommendations made in the prior year annual audit report.

37. Whilst management have implemented changes to delegate certain responsibilities to the office administrator from the Director of Corporate Services, RMA continues to be impacted by staff resourcing issues within its finance team which means that internal controls are not operating fully as designed.

38. Management have reviewed the responsibilities of the currently vacant role of Finance and Governance officer and will be undertaking a recruitment process in June 2024.

39. RMA negotiated with their trade union to agree a review of the structure of the organisation in 24/25. This review will consider recommendations made, work requirements and the impact of pending recruitment and are expected to be discussed in October 2024.

RMA has appropriate arrangements in place for securing Best Value

40. The duty of Best Value is an auditable requirement. Ministerial guidance has been issued to accountable officers on best value. The guidance states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

41. RMA employs a suitable framework for self-assessment against best value principles. Review of these annual internal assessments has been delegated by the Board to the Audit and Assurance Committee, and they can be viewed on the RMA website.

42. The latest annual review maps seven themes relevant to RMA activity against the Scottish Public Finance Manual characteristics of best value, noting achievements and evidence, to produce an action plan for the following year.

Appendix 1. Action plan 2022/24

Follow-up of prior year recommendations

Issue/risk	Recommendation and Agreed Action	Progress
Segregation of Duties Through discussions with management and our review of internal controls it was confirmed that there was no segregation of duties between September 2022 and March 2023. This impacted the preparation and review of journals, and general ledger reconciliations. Risk – There is an increased risk of fraud or error where a secondary review of journals and reconciliations is not undertaken.	We recommend review of the system of internal controls to ensure adequate segregation of duties going forward. RMA will review staff structure with the aim to increase resilience to support segregation of duties within the organisation. Responsible officer: Director Corporate Services Agreed date: 31 December 2023	**Work in progress** Management have implemented changes to the internal controls to delegate certain tasks to the office administrator from the Director of Corporate Services. Follow a review of the responsibilities of the Finance and Governance officer role, recruitment for the vacant role is scheduled to be undertaken in June 2024. Negotiations have been undertaken with the trade union in to review the structure of the organisation in 2024/25. This expected to be discussed with the trade union in October 2024. Responsible officer: Director of Corporate Services Revised date: 31 December 2024

Issue/risk	Recommendation and Agreed Action	Progress
Equalities and Diversity - Update to the current staff training and induction pack There were no training materials for staff relating to equalities and diversity. This is also not covered in the current induction pack for new employees or members. Risk – there is a risk the current RMA staff training and induction training programme does not comply with the most current legislation.	RMA should provide appropriate training to existing staff and update the current induction pack for new employees and members to include training materials relating to equalities and diversity. It was noted that no progress was made on this during 2022/23. The recommendation is to be taken forward by the new HR Manager who joined in May 2023, with a review of policies and training scheduled to be carried out during 2023/24.	**Work in Progress** The existing Equality Policy and Equality Impact Assessment were reviewed in January 2024. These are scheduled to be reviewed by the Senior Management team by the end of June 2024. RMA completed a review of their mandatory training and inclusive culture training is scheduled to be launched in August 2024. Responsible officer: HR Manager Revised date: 30 August 2024
Business Continuity Planning Current plans are to carry out a review of business continuity plans in 2022. We acknowledge that, in common with many public bodies, processed in place coped well with the major upheaval of a sudden transition to remote working. Risk – Elements of the current BCP, not directly linked with remote working arrangement, have not been subject to recent review or testing and may not operate as designed in the “new normal” working environment.	We recommend that the next review of business continuity planning should be brought forward, to address the current governance and operational environment. Management have identified the risks posed by remote working and work is currently underway to identify actions to mitigate these risks.	**Work in Progress** Internal audit commenced a Cyber Security audit in 23/24 however, it has been agreed with management to schedule the completion of this work in 24/25 to enable a more detailed review to be completed. A review of the Business Continuity Plan will be completed once this audit work has been concluded. RMA continues to undertake discussions with the Scottish Government IT team with regards to any interim actions that the organisation can take with regards to IT risks. Responsible officer: Director of Corporate Services Revised date: 30 April 2025

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www.audit-scotland.gov.uk/accessibility

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