

# Risk Management Authority

2022/23 Annual Audit Report



 AUDIT SCOTLAND

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

July 2023

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# Key messages

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## 2022/23 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 2022/23 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 £49,000 in 2022/23 and is currently forecasting an overspend of £13,000 for 2023/24.
- 8 Budget forecasts indicate that RMA is facing a potential cumulative funding gap of £1.006 million by the end of 2027/28. RMA expenditure is mainly staff costs and without sufficient funding RMA may be unable to deliver certain services required by legislation.
- 9 Appropriate segregation of duties where not in place for the full year.
- 10 RMA has appropriate arrangements in place to secure Best Value.

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# Introduction

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1. This report summarises the findings from the 2022/23 annual audit of Risk Management Authority (RMA).
2. The scope of the audit was set out in our 2022/23 Annual Audit Plan. An audit strategy letter was presented to the 13 February 2023 meeting of the Audit and Assurance Committee. The Annual Audit Plan was issued to the Audit and Assurance Committee members for consideration on 24 March 2023.
3. This Annual Audit Report comprises:
  - significant matters arising from an audit of the RMA's annual report and accounts
  - wider scope areas that frame public audit as set out in the [Code of Audit Practice 2021](#), which for less complex bodies includes conclusions on financial sustainability.
4. 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](http://www.audit-scotland.gov.uk) in due course.

## Audit appointment from 2022/23

5. I, Mark Ferris have been appointed by the Auditor General as auditor of RMA for the period from 2022/23 until 2026/27. The 2022/23 financial year was the first of my five-year appointment. My appointment coincides with the new [Code of Audit Practice](#) (the Code) which was introduced for financial years commencing on or after 1 April 2022.
6. My team and I would like to thank Audit and Assurance Committee members, executive directors, and finance staff, for their cooperation and assistance during the audit and we look forward to working together constructively over the course of the five-year appointment.

## Responsibilities and reporting

7. 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.
8. The responsibilities of the independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2021](#), supplementary guidance and International Standards on Auditing in the UK.

**9.** The weaknesses or risks identified in this report are only those which have come to our attention 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.

**10.** This report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation.

## **Auditor Independence**

**11.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2022/23 audit fee of £9,780 as set out in our 2022/23 Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**12.** We add value to RMA by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, arrangements to ensure the best use of resources and financial sustainability.
- sharing intelligence and good practice identified.

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# Part 1. Audit of 2022/23 annual report and accounts

Public bodies are required to prepare annual report and accounts comprising financial statements and other related reports. These are principal means of accounting for the stewardship public funds.

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## Main judgements

Our 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.

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## Our audit opinions on the annual report and accounts are unmodified

**13.** The Audit and Assurance Committee approved the annual report and accounts for the RMA for the year ended 31 March 2023 on 19 June 2023. This is subject to outstanding information in respect of the Executive Directors Remuneration and Pension Benefits within the Remuneration and Staff Report being received and audited and any other subsequent events. 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, 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.

## Overall materiality was assessed on receipt of the annual report and accounts as £37,000

**14.** 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.

**15.** Our initial assessment of materiality was carried out during the risk assessment and planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in Exhibit 1.

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### Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£37,000
Performance materiality	£28,000
Reporting threshold	£1,850

Source: Audit Scotland

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

**17.** 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% 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.

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

### Significant findings and key audit matters

**19.** 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.

**20.** The Code of Audit Practice also requires all audits to communicate key audit matters within the annual audit report under International Standard on Auditing (UK) 701. These are matters that we judged to be of most significance in our audit of the financial statements.

**21.** We have no significant issues to report from the audit.

## **Our audit work responded to the risks of material misstatement we identified in the annual report and accounts**

**22.** We 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 we identified in our 2022/23 Annual Audit Plan. It also summarises the further audit procedures we 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**

<b>Audit risk</b>	<b>Assurance procedure</b>	<b>Results and conclusions</b>
<p><b>1. Risk of material misstatement due to fraud caused by management override of controls</b></p> <p>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.</p>	<p>Assessed the design and implementation of controls over journal entry processing.</p> <p>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.</p> <p>We also tested journals throughout the year as well as year-end and post-closing journals with a focus on significant risk area.</p> <p>Evaluated significant transactions outside the normal course of business.</p> <p>Assessed the adequacy of controls in place for identifying and disclosing related party transactions in the financial statements.</p>	<p>We assessed the design and implementation of controls over journal entry processing. These were noted to be adequate but not able to be applied for part of the financial year.</p> <p>See <a href="#">Paragraph 37</a> and <a href="#">Recommendation 1</a></p> <p>Due to the issue noted with segregation of duties, 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.</p> <p>There were no significant transactions outside the normal course of business.</p> <p>We did not identify any issues with the controls in place for identifying and disclosing related party transactions.</p>



Audit risk	Assurance procedure	Results and conclusions
	Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.	The methods and underlying assumptions used to prepare accounting estimates were consistent with the prior year.
	Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct 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.

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### Audit Scotland: Annual Audit Plan

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**23.** In addition, we identified “areas of audit focus” in our 2022/23 Annual Audit Plan where we considered there to be other risks of material misstatement to the financial statements. The area of specific audit focus was:

- A review of the implementation of IFRS 16 Leases in respect of the impact on assets, liabilities, and disclosures within the financial statements.

**24.** We kept this area under review throughout our 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

**25.** There were no misstatements identified that exceeded our reporting threshold.

**26.** There are no unadjusted errors to report.

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

**27.** The unaudited annual report and accounts were received in line with our agreed audit timetable on 1 May 2023.

### Good progress was made on prior year recommendations

**28.** RMA has made good progress in implementing the audit recommendations identified by Audit Scotland, the previous external auditor. 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 the body and the services that it delivers over the medium to longer term.

## Main judgements

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

RMA achieved an underspend of £49,000 in 2022/23 and is currently forecasting an overspend of £13,000 for 2023/24.

Budget forecasts indicate that RMA is facing a potential cumulative funding gap of £1.006 million by the end of 2027/28. RMA expenditure is mainly staff costs and without sufficient funding the RMA may be unable to deliver certain services required by legislation.

Appropriate segregation of duties were not in place for the full year.

RMA has appropriate arrangements in place to secure Best Value.

## RMA operated within its budget allocation for 2022/23

**29.** 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.

**30.** RMA had an underspend of £49,000 on a budget of £2,014,000 and its performance against its Departmental Expenditure Limit (DEL) is shown in [Exhibit 3](#).

### Exhibit 3

#### Performance against DEL in 2022/23

Performance	Initial budget £m	Final budget £m	Actual drawdown £m	Over/(under) spend £m
Resource DEL	1.894	2.014	1.965	(0.049)

Source: Audited Annual Report and Accounts/ Budget Allocation and Monitoring Letter 2022/23

## RMA has a medium-term financial plan in place

**31.** 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.

**32.** RMA is forecasting an overspend of £13,000 for 2023/24. The baseline budget allocation of £2.032 million from the Sponsor Department represents an 7.3% increase on the prior year.

**33.** In February 2022, the Board approved a 5-Year Financial Plan, using the agreed 2022/23 funding level as a baseline, and extending five years beyond that to financial year 2027/28.

**34.** The 5-Year Financial Plan forecasts annual expenditure increasing by £0.315 million between 2022/23 and 2027/28, with the cumulative funding deficit forecast as being £1.006 million.

**35.** Any savings required in 2023/24 and beyond have still to be identified, however, as 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.

**36.** The position outlined in the 5-Year Financial Plan does not take the inflationary pressures of the past year or the outcome of the Scottish Government Resource Spending Review published in May 2022 into account. RMA have regular contact with the sponsor department and a revised 5-Year forecast is to be produced to support delivery of the RMA corporate plan.

## Appropriate segregation of duties where not in place for the full year

**37.** We carried out a review of the key controls within the financial systems used by RMA during our audit. Whilst overall we concluded that the design of the systems of internal control is satisfactory, we noted that due to staff resourcing issues there were no segregation of duties between September 2022 and March 2023.

## Best Value

**38.** 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.

**39.** 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.

**40.** 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 2022/23

## 2022/23 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Segregation of Duties</b></p> <p>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.</p> <p>Risk – There is an increased risk of fraud or error where a secondary review of journals and reconciliations is not undertaken.</p>	<p>We recommend review of the system of internal controls to ensure adequate segregation of duties going forward.</p> <p><a href="#">Paragraph 37</a></p>	<p>RMA will review staff structure with the aim to increase resilience to support segregation of duties within the organisation.</p> <p>Responsible officer: Director Corporate Services</p> <p>Agreed date: 31 December 2023</p>

## Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p><b>1. Performance Reporting requires further improvement</b></p> <p>The performance report that accompanies the financial statements must meet the mandatory requirements set out in the Government Financial Reporting Manual (FReM).</p> <p>Our work found improvements were required to meet those requirements and noted the performance report could be shortened.</p> <p>Risk – there is a risk that the performance of the RMA may not be transparent, and the reader may not fully understand key messages.</p>	<p>Management should review the performance report for the 2022/23 accounts to ensure compliance with the Government Financial Reporting Manual (FReM), consider reducing the length and identify areas that could be improved further.</p>	<p><b>Completed</b></p> <p>The performance report was reviewed as part of our audit work. Changes were made to ensure compliance with the Government Financial Reporting Manual (FReM), and it was noted that the length of the report has been significantly reduced.</p>
<p><b>2. Compliance with 2018 accessibility regulations</b></p> <p>RMA published the bi-annual Equalities mainstreaming report in 2021.</p> <p>It was not clear if RMA complied with the Public Sector Bodies (Websites and Mobile Applications) (No.2) Accessibility Regulations 2018.</p> <p>Risk – there is a risk RMA have not complied with legal accessibility requirements.</p>	<p>All public sector bodies, unless exempt, must meet the requirements set out in the Public Sector Bodies (Websites and Mobile Applications) (No.2) Accessibility Regulations 2018.</p>	<p><b>Completed</b></p> <p>A new website was launched on 30 January 2023. As part of our audit work, we reviewed supporting evidence and confirmed that it meets the requirements of the Public Sector Bodies (Websites and Mobile Applications) (No.2) Accessibility Regulations 2018.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p><b>3. Equalities and Diversity - Update to the current staff training and induction pack</b></p> <p>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.</p> <p>Risk – there is a risk the current RMA staff training and induction training programme does not comply with the most current legislation.</p>	<p>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.</p>	<p><b>Ongoing, target date not yet reached.</b></p> <p>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.</p> <p>Responsible officer: HR Manager</p> <p>Revised date: 31 December 2023</p>
<p><b>4. Improved transparency and scrutiny – Best Value self-assessment</b></p> <p>The annual Best Value self-assessment is currently not presented and reviewed by the Board prior to publication.</p> <p>Risk – there is a risk that there is insufficient scrutiny by Board members to ensure achievement of Best Value.</p>	<p>The annual Best Value self-assessment should be reviewed and approved by the Board prior to publication.</p>	<p><b>Completed</b></p> <p>The Best Value Review 2021/22 was reviewed and approved by the Board in February 2023 prior to being published on the RMA website.</p>
<p><b>5. Business Continuity Planning</b></p> <p>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.</p> <p>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.</p>	<p>We recommend that the next review of business continuity planning should be brought forward, to address the current governance and operational environment.</p>	<p><b>In progress</b></p> <p>Management have identified the risks posed by remote working and work is currently underway to identify actions to mitigate these risks.</p> <p>Responsible officer: Finance &amp; Governance Officer</p> <p>Revised date: 31 December 2023</p>

# Risk Management Authority

## 2022/23 Annual Audit Report

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](http://www.audit-scotland.gov.uk/accessibility)



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