

Risk Management Authority

Report on the 2005/06 Audit

October 2006



Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Executive and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Executive Summary

Introduction

In 2005-06 we audited the first financial statements of the Risk Management Authority (RMA) which included looking at aspects of corporate governance. This report sets out our key findings. At the planning stage we identified three audit risks which informed our audit procedures. From our audit work we can conclude that these risks are being satisfactorily managed by the RMA.

Financial Statements

We have given an unqualified opinion on the financial statements of the RMA for 2005-06.

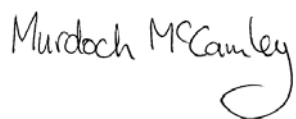
Governance

We found that, over the period since it was established, RMA had put in place a sound corporate governance framework; we recommended that RMA continue to develop and embed its corporate governance arrangements in line with best practice. We also reviewed the arrangements for provision of the internal audit service and were able to place formal reliance on their work.

Performance Management

As indicated in the approved audit plan, the audit approach involved aspects of performance audit, but these were dealt with under corporate governance and financial statements, with no specific performance audit work undertaken.

I would like to record my thanks to management and staff for their co-operation and assistance.



Murdoch McCamley CA, Senior Audit Manager, 06 October 2006

Introduction

Scope of the Audit

1. This report summarises the findings from our 2005-06 audit of the RMA. The scope of the audit was set out in our Audit Plan, which was submitted to the Audit Committee in February 2006. This plan described the work we planned to carry out on financial statements and governance.
2. This report to management sets out our findings from the review carried out. Any weaknesses outlined are only those which have come to our attention during the course of our normal audit work and are not necessarily all the weaknesses which may exist. It is the responsibility of management to determine the extent of the internal control system appropriate to the RMA. We would stress, however, that an effective internal control system is an essential part of the efficient management of any organisation.
3. The contents of this report have been agreed with relevant officers to confirm factual accuracy.
4. RMA is a new body. Audit Scotland were appointed as auditors for this first audit. 2005-06 is the final year of a 5 year appointment cycle and KPMG have been appointed auditors for the 5 years commencing 2006-07. Handover arrangements are in place. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the Authority during the course of our appointment. This report will be submitted to the Auditor General for Scotland and will be published on our website at www.audit-scotland.gov.uk.

Outcome on Risks Identified in the Audit Plan

5. A feature of our audit approach is to understand our client's business and appreciate the risks arising from that business. Six audit risks were identified at the planning stage, as identified below. The outcome against planned activity is summarised at Appendix A. We can conclude from the results of our work on these risks that they are being satisfactorily managed by the RMA.

Corporate governance risks	Financial statements risks
Establishing governance arrangements	Disclosure of activity prior to first accounting period
Reconciliation of PGO bank account	Disclosures for Statement on Internal Control
Reconciliation of payroll recharges from Scottish Executive	The introduction of the Financial Reporting Manual

Financial Statements

Our Responsibilities

6. 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 thereunder by the Scottish Ministers, on the state of affairs of the Risk Management Authority as at 31 March 2006 and of its surplus, total 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 and directions made thereunder 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.

7. We also review the Statement on Internal Control by:

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

Overall Conclusion

8. We have given an unqualified opinion on the financial statements of the RMA for 2005-06. We are able to conclude that the financial statements of the RMA give a true and fair view of the financial position for the period from 1 April 2005 to 31 March 2006 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.

9. Following discussion with the Director of Business Performance, a date of 24 April 2006 was agreed for the provision of the accounts for audit. Accordingly audit work was scheduled to achieve a certification date that would permit the laying of the accounts before the Scottish Parliament by the

end of June. Accounts were duly submitted on the agreed date and the completion timetable for the audit of the financial statements was achieved.

Financial Performance

10. The RMA's Income and Expenditure Account for the year records a total cost for the financial year of £709,000. This total includes net notional costs of £6,000 (cost of capital) and depreciation charges of £15,000. The capital expenditure for the year was £73,000.
11. The total net assets of the RMA at the year-end amounted to £77,000. This comprises fixed assets of £67,000 and net current assets of £10,000, comprising a bank balance of £407,000 offset by a creditor balance of £397,000, most of which was due to the Scottish Executive in respect of recharges for pay.

Statement on Internal Control

12. A draft Statement on Internal Control was presented to the Audit Committee on 5 June 2006, with a final version signed by the Chief Executive, as part of the annual report and accounts, on 14 June 2006. This set out the arrangements established and operated for risk identification and review, management of identified risks and review of effectiveness of the system of internal control.
13. We are satisfied that the Statement complies with Scottish Executive guidance, that the process put in place by the Accountable Officer to obtain assurances on systems of internal control is 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

14. My responsibilities in relation to the communication of audit matters to those charged with governance are covered in International Standard on Auditing 260 and outcomes against the requirements of the Standard were reported in a letter to the Accountable Officer and presented to the Audit Committee on 5 June 2006. In this context, our audit has not identified any unadjusted errors that we need to bring to your attention.

Significant Judgements and Other Issues

15. The ISA 260 letter confirmed that our audit had not identified any material weaknesses in accounting and internal control arrangements; the Statement on Internal Control appropriately reflects

circumstances; that detailed comments on less significant items had been brought to attention by internal audit; and external audit had also identified some less significant issues. The letter identified the main issue as the relationship with the Scottish Executive, including streamlining arrangements and getting the most out of their accounting system (SEAS). The letter also drew attention to the accounts preparation process, noting that the final draft of the accounts had been prepared under significant time constraints and that some fine tuning of format and disclosures for 2006-07 would be beneficial.

16. An action plan for those issues requiring further development is at Appendix B.

Governance

Introduction

17. Corporate governance is the system by which organisations direct and control their functions and relate to their stakeholders, 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. Three fundamental principles of corporate governance apply equally to all public sector bodies - openness, integrity and accountability.

18. As part of our 2005-06 audit we have conducted an overview of the RMA's corporate governance arrangements in relation to:
 - the structures and processes for decision making;
 - risk management and systems of internal control;
 - arrangements for the prevention and detection of fraud and irregularities;
 - standards of conduct, integrity and openness; and
 - reporting arrangements and monitoring of the RMA's overall financial position.

19. The overview commenced as part of the audit planning process and the resulting report was presented to the audit committee on 26 February 2006 and recorded the position as at January 2006. We found that the RMA had established a sound corporate governance framework in particular, that RMA:
 - had addressed key issues in its decision making structures and processes in relation to the roles of Board members and arrangements for senior management, arrangements for the conduct of business and the delegation of authorities;
 - operated an Audit Committee whose membership was made up of non-executive Board members;
 - worked in partnership with stakeholders and had an ongoing programme of consultation with the legal profession, the justice system, the mental health practitioners and the public;
 - had an Internal Audit service which complied with H.M. Treasury's Government Internal Audit Manual standards;
 - had made significant progress in the development of a risk management framework with structured processes to identify and evaluate all significant operational risks;

- operated arrangements aimed at ensuring that Board members and employees are not influenced by prejudice, bias or conflicts of interest, including the adherence to Codes of Conduct and maintenance of registers of interests and gifts; and
 - had arrangements in place to ensure compliance with financial requirements and the achievement of financial targets.
20. We recommended that RMA continue to develop and embed their corporate governance arrangements in line with best practice.

Review of Internal Audit

21. The RMA recognises that internal audit is a key element of the internal control system set up by management. A strong internal audit function is necessary to ensure the continuing effectiveness of the internal control system established. To maximise the reliance that external audit can place on internal audit and to avoid duplication of effort, the adequacy of internal audit is assessed each year.
22. Internal audit is sub-contracted to Communities Scotland's Internal Audit Service. Colleagues within Audit Scotland reviewed the Communities Scotland's overall internal audit arrangements and we reviewed files and reports relating to RMA. As a result of these reviews we are pleased to confirm that we are placing reliance on the work of internal audit over the period, as was anticipated in our audit plans. We also confirm that the results of audits are accurately reported to the Audit Committee in the summary reports submitted to the Committee.
23. The following reports were presented to the Audit Committee on 5 June 2006:
- Review of accommodation;
 - Review of expenses and hospitality;
 - Review of recruitment and training; and
 - Review of risk management and planning.
24. On 5 June 2006 the Head of Internal Audit provided her opinion to the Chief Executive that, based on the internal audit coverage for 2005-06, the RMA had a sound framework of control throughout the financial year, which provided reasonable assurance that there were no significant deficiencies in systems and controls within the RMA.

Appendix A: Outcome on Risks Identified in Audit Plan

Audit risks per audit plan	Planned audit activity	Outcome
<p>Being a new organisation, failure to develop appropriate corporate governance arrangements could lead to the RMA failing to achieve its targets and objectives.</p>	<p>Assess the development of corporate governance arrangements. Monitor management's monitoring of performance against objectives.</p>	<p>The corporate governance overview confirmed that the RMA had established a sound corporate governance framework and recommended that the RMA continue to develop and embed their corporate governance arrangements in line with best practice, including formulating a whistle blowing policy in conjunction with their legal advisers (now complete). The RMA annual report records satisfactory progress against objectives.</p>
<p>From our initial review work we noted that there have been difficulties with the reconciliation of the PGO bank account.</p>	<p>Review reconciliations and assess implications.</p>	<p>The year-end bank balance was not reconciled in the format we would expect (although records were readily reconciled). We recommend that reconciliations should be appropriately documented and reviewed.</p>
<p>From our initial review work we noted that there have been difficulties with the reconciliation of monthly recharges of payroll costs from the Scottish Executive.</p>	<p>Review reconciliations, calculations and assess implications.</p>	<p>Monthly recharges were (largely) agreed with amounts paid over to the Scottish Executive in April and May 2006. As at 31 March 2006 there were small differences between the Executive and the RMA which were recorded in accruals. We recommend these are resolved with the Executive.</p>

Audit risks per audit plan	Planned audit activity	Outcome
<p>Financial activity prior to first accounting period was undertaken by the Scottish Executive, on behalf of the RMA, which will need to be reflected in the first set of accounts, as specified in the Accounts Direction.</p>	<p>Discuss approach with the RMA, to cover:</p> <ul style="list-style-type: none"> • assets transferred in at 1 April 2005 • transactions prior to 1 April 2005 • appropriate narrative and other disclosures for reserves, etc. 	<p>The accounts reflect the fixed assets transferred in, matching them with notional deferred grant (notes 6 & 10).</p> <p>The costs prior to 1 April 2005 are disclosed in note 12.</p>
<p>As a new organisation, the Statement on Internal Control will need to reflect the development of arrangements over the period.</p>	<p>Liaise with the RMA over the proposed disclosures in this area.</p>	<p>The disclosures in the Statement on Internal Control appropriately reflect the RMA's circumstances and the development of risk management and internal control arrangements.</p>
<p>There are new disclosure requirements for 2005-06 following the introduction of the Financial Reporting Manual. These mainly relate to the narrative elements of the Foreword to the accounts.</p>	<p>Liaise with the RMA over the need for an Operating & Financial Review and a Remuneration Report.</p>	<p>Appropriate disclosures have been made in the Remuneration Report and the Management Commentary (replacing Operating & Financial Review). Still need to see how the Annual Report and Annual Accounts dovetail together.</p>

Appendix B: Action Plan: Recommendations for Further Improvements

No	Para. No	Issue, Risk and Audit Recommendation	Management Response	Responsible Officer	Target Date
1	19, 20	<p>Corporate governance The RMA has made significant progress in establishing its framework for corporate governance. <i>We recommended that the RMA continue to develop and embed their corporate governance arrangements in line with best practice.</i></p>	<p>Recommendation accepted. Embedding corporate governance arrangements is an on-going process, this is being taken forward by training for Board and staff, compliance checks with good governance checklists etc.</p>	The RMA Board and Chief Executive	On-going
2	App A	<p>Reconciliations (bank, pay recharges, fixed asset register) If reconciliation procedures are not properly documented and reviewed, there is a risk that errors or mis-statements could remain undetected. <i>We recommend the RMA review aspects of these housekeeping arrangements to ensure they are following best practice.</i></p>	<p>Recommendation accepted. The relevant procedures have been reviewed and updated in line with Audit issues raised. Also further staff training has taken place and additional resources put in place to ensure best practice. Arrangements for receiving documentation/information from the SE have been reviewed and the RMA has requested better service provision in this area.</p>	Jackie Bergen	Completed
3	15	<p>Accounting arrangements The Scottish Executive provide a range of accounting and other services to the RMA and there is some evidence that arrangements need to be streamlined to avoid duplication and for the RMA to get the most out of their accounting system (SEAS), and the accounts preparation process. <i>We recommend that the RMA review their accounting arrangements in conjunction with the Executive and ensures that appropriate arrangements are in place for year-end 2007, including some fine tuning of format and disclosures.</i></p>	<p>Recommendation accepted. Arrangements for preparation of 2006-07 accounts are being reviewed and proposals to resolve will be made to the Audit Committee in December 2006. Arrangements for receiving documentation/information from the SE have been reviewed and the RMA has requested better service provision in this area.</p>	Jackie Bergen	December 2006

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