



INFRASTRUCTURE, GOVERNMENT &
HEALTHCARE

Risk Management Authority

Annual audit report to the Risk
Management Authority and the
Auditor General for Scotland
2006-07

15 June 2007

AUDIT

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Notice: About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ('the Code').

This report is for the benefit of only the Risk Management Authority and is made available to Audit Scotland (together the beneficiaries), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

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Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Grant Macrae, who is the engagement leader for our services to the Authority, telephone 0131 527 6611, email grant.macrae@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Lorraine Bennett, our Head of Audit in Scotland, either by writing to her at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 222 2000 or email to lorraine.bennett@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Russell Frith, Director of Audit Strategy, Audit Scotland, 110 George Street, Edinburgh, EH2 4LH.

Executive summary

Scope of report

This report summarises our work for the 2006-07 year and our findings in relation to our:

- audit of the financial statements;
- corporate governance arrangements; and
- performance management arrangements.

Financial statements

On 15 June 2007 we issued an audit report expressing an unqualified opinion on the financial statements of the Authority for the year ended 31 March 2007 and on the regularity of transactions reflected in those financial statements. There are no significant issues arising from the financial statements audit.

Corporate governance

The statement on internal control sets out the scope of responsibility of the accountable officer for maintaining a sound system of internal control that supports the achievement of the Authority's policies, aims and objectives while safeguarding the public funds for which the accountable officer is responsible. The statement sets out the arrangements established for risk identification and review, management of identified risks, and review of effectiveness of the system of internal control.

We are satisfied that the statements complies with the Scottish Executive guidance, that the processes put in place by the accountable officer to obtain assurances on the system of internal control are adequate, and that the contents of the statement are consistent with the information emerging from our normal audit work.

We also reviewed the arrangements for provision of the internal audit service to the Authority and were able to place formal reliance on their work.

The Authority's expenditure for the year was within its budgeted provision for the year.

Performance management

As outlined on our agreed audit plan for the year, no specific performance audit work was required to be undertaken during the year. While our audit approach did involve aspects of performance management, this work was completed and reported within our comments on corporate governance and financial statements.

Introduction

Audit framework

2006-07 was the first year of our five-year appointment as external auditors of the Risk Management Authority ("the Authority"). This report to the Authority and the Auditor General for Scotland summarises our opinion and conclusions and highlights significant issues arising from our work.

In accordance with Audit Scotland's *Code of Audit Practice*, the scope of the audit was to:

- provide an opinion on the Authority's financial statements and, as required by relevant authorities, the regularity of transactions;
- review and report on (as required by relevant legislation, the Code and any guidance issued by Audit Scotland):
 - the Authority's corporate governance arrangements as they relate to: its review of systems of internal control; the prevention and detection of fraud and irregularity; standards of conduct, and prevention and detection of corruption; and its financial position
 - the Authority's arrangements to achieve Best Value
 - other aspects of the Authority's arrangements to manage its performance, as they relate to economy, efficiency and effectiveness in the use of resources.

The framework under which we operate under appointment by Audit Scotland was outlined in the audit plan Tfor the year discussed with the Authority's audit committee.

Basis of information

External auditors do not act as a substitute for the Authority's own responsibilities for putting in place proper arrangements to account for its stewardship of resources made available to it and its financial performance in the use of those resources, to ensure the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the effectiveness of those arrangements and, through accountable officers, to make arrangements to secure Best Value.

Acknowledgement

Our audit has continued to bring us into contact with a range of Authority staff. We wish to place on record our appreciation of the co-operation and assistance extended to us by staff during the first year of our work in the discharge of our responsibilities.

Financial statements audit

Audit opinion

On 15 June 2007 we issued an audit report expressing an unqualified opinion on the financial statements of the Authority for the year ended 31 March 2007 and on the regularity of transactions reflected in those financial statements.

Presentation of the financial statements

The organisation is required to prepare its financial statements in compliance with the financial reporting manual ("FReM") issued by HM Treasury, as stated in the accounts direction. From 2006-07 the FReM requires that all central government financial statements include an operating cost statement ("OCS") as the primary income statement, rather than an income and expenditure account.

Grants and grant-in-aid received for revenue purposes from the Scottish Executive were previously shown as income, but this has changed so that such amounts shall be considered as contributions from controlling parties giving rise to a financial interest in the residual interest of the body, and hence should be accounted for as financing.

This change represents a change in accounting policy and therefore requires a prior year adjustment to reflect changes in the previously reported financial statements. This treatment complies with the requirements of both FRS 3 'reporting financial performance' and the FReM.

As a result, the Authority has included a number of additional disclosures in its primary financial statements, accounting policies, and the notes to the financial statements.

Regularity

There are no issues arising from the regularity audit. We have reviewed the minutes of the Authority's key committees, including the board and audit committee meetings. From these minutes, we have established that the Authority has procedures in place to ensure discussion of key guidance from the Authority's Scottish Executive sponsor division, as well as other relevant laws and regulations. We have obtained management representations from the accountable officer that during 2006-07 the Authority has complied with all necessary laws and regulations.

Report to those charged with governance

At the audit committee meeting on 1 June 2007 we discussed our "report to those charged with governance" which is required under International Auditing Standard 260. This dealt with relevant aspects of the Authority's financial statements production process, amendments to draft financial statements during the audit process, the treatment of uncorrected audit differences and the content of the representation letter from the accountable officer to us. There were no matters of significance included in that report which require to be reported here.

Corporate governance

Introduction

Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of organisations. The public sector is complex, but regardless of size and operating framework, the three fundamental principles of corporate governance – openness, integrity and accountability – apply to all bodies.

Through its chief executive, the Authority is responsible for establishing arrangements for ensuring the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. The *Code* requires auditors to review and report on the Authority's corporate governance arrangements as they relate to:

- the Authority's reviews of its systems of internal control, including its reporting arrangements;
- the prevention and detection of fraud and irregularity;
- standards of conduct and arrangements for the prevention and detection of corruption; and
- its financial position.

Systems of internal control

Statement on internal control

The statement on internal control sets out the scope of responsibility of the accountable officer for maintaining a sound system of internal control that supports the achievement of the Authority's policies, aims and objectives while safeguarding the public funds for which the accountable officer is responsible. The statement sets out the arrangements established for risk identification and review, management of identified risks, and review of effectiveness of the system of internal control.

We are satisfied that the statements complies with the Scottish Executive guidance, that the processes put in place by the accountable officer to obtain assurances on the system of internal control are adequate, and that the contents of the statement are consistent with the information emerging from our normal audit work.

Governance arrangements and risk management

Since its inception in 2004, the Authority has sought to establish its governance and risk management arrangements. During 2006-07 continued progress has been made to develop and embed these into the organisation. The Authority has an approved corporate plan covering the period April 2006 to March 2009, and operated during the year on its 2006-07 business plan.

The risk register for the Authority is reviewed and update on a regular basis during the year, through consideration and identification of risks at the board meetings. The updated risk register is then reviewed by the audit committee.

Internal audit

The Authority sub-contracts internal audit to Communities Scotland's internal audit service. Internal audit conducted their work for the year in accordance with their annual audit plan, which was previously approved by the audit committee. All scheduled audits for the year were completed with the following reports presented to the audit committee:

- Compliance with Management Statement and Financial Memorandum
- Performance Indicators
- Asset & Inventory
- Financial Governance
- Implementation of Recommendations from 2005-2006

On 1 June 2007, the head on internal audit provided her annual assurance report to the accountable officer and the audit committee. This report concluded that *"the RMA had a sound framework of control throughout the financial year which provides reasonable assurance that there are no significant deficiencies in the systems and controls examined and that all transactions have been properly recorded and accounted for."*

Prevention and detection of fraud and irregularity

The Authority's fraud policy, including a fraud response plan, was approved in August 2005. The policy describes fraud indicators, which may either be indicative of fraud or may highlight areas where there is a heightened risk of fraud. The content of the policy meets the requirements and identifies specific responsibilities for the prevention and detection of fraud.

The Authority approved its reporting of serious concerns (whistle blowing) policy in March 2006 in order to comply with the requirements of the Public Interest Disclosure Act 1998.

Standards of conduct

The Authority has approved a code of conduct for Authority members, which outlines the responsibilities of the convener and other members of the Authority in fulfilling their duties and meets the requirements of the Ethical Standards in Public Life etc. (Scotland) Act 2000.

The register of interests of members is updated at least on an annual basis and is made available for review on the Authority's website.

Financial position

The financial results for the year report that all expenditure during 2006-07 was within the agreed budgetary provision of £1,585,000 for the year. The Authority underspent against this budget by £653,000. Of this underspend, £100,000 related to budgetary provision for design and implementation of an electronic process management system for the Authority which was not progressed during the year. The Authority has also carried over a further £531,000 to fund various projects which were scheduled to conclude or commence in 2006-07 but which have now been taken forward into 2007-08.

The total net assets of the Authority at 31 March 2007 amounted to £352,000. This comprises fixed assets of £52,000, and net current assets of £300,000, comprising bank balances of £517,000 and trade creditors and accruals of £217,000. The cash drawn down and held within the Authority's bank account will be utilised for the research projects commenced in 2006-07 and carried forward into 2007-08.



Performance management

As outlined on our agreed audit plan for the year, no specific performance audit work was required to be undertaken during the year. While our audit approach did involve aspects of performance management, this work was completed under corporate governance and financial statements.

Best Value

The board had agreed that during 2006-07 the Authority should undertake a Best Value self-assessment as part of its 2006-07 Business Plan. Action has been taken to commence this review, however, it was reported to the audit committee in March 2007 that the self-assessment was not yet complete. It was agreed that the committee would hear the results of the Authority's self-assessment exercise by the September 2007 meeting of the audit committee.

Appendix – action plan

Priority rating for performance improvement observations raised		
<p>Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the Board or systems under consideration. The weakness may therefore give rise to loss or error.</p>	<p>Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.</p>	<p>Grade three (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the controls to meet their objectives in any significant way. These are less significant observations than grades one and two, but we still consider they merit attention.</p>

No.	Issue and performance improvement observation	Management response	Officer and due date
1	<p>The Authority is holding significant cash balances at the year end totalling £517,000. We recommend that management review their cash flow requirements in 2007-08 to ensure that cash is only drawn down when required to fund their ongoing activities, and established research projects.</p> <p><i>Grade two</i></p>	<p>Recommendation accepted. The authority accepts that the amount of cash in the bank at the year end was more than was necessary. However, the cash was drawn down during the year on the basis that projects would commence and finalise within timescale but after draw down project timescales were changed. The timescale changes were for good reason but the authority has agreed to hold back draw down for future years until project contracts are signed and timescales confirmed.</p>	<p>Director of Business Administration</p> <p>31 March 2008</p>

