

Scottish Parliamentary Corporate Body

Report on the 2006/07 Audit

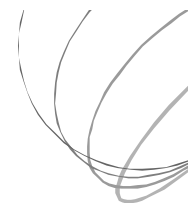


December 2007



Scottish Parliamentary Corporate Body

Report on the 2006/07 Audit



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Executive Summary

Introduction

Our audit was based on understanding the key strategic and financial risks being faced by the Scottish Parliamentary Corporate Body. We audited the financial statements and aspects of governance and performance management were also reviewed during the year. This report sets out the key findings.

Financial Statements

We have concluded that the financial statements of the Scottish Parliamentary Corporate Body give a true and fair view of the state of affairs of the SPCB as at 31 March 2007 and of its income and expenditure for the year then ended.

We have also concluded that, in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance issued by Scottish Ministers.

We have also reviewed the other issues which we are required to consider as part of our audit opinion such as the management commentary, the remuneration report and the statement on internal control. We can confirm that there are no matters arising in relation to our responsibilities in these areas that we need to bring to the attention of the SPCB.

Significant matters arising from the audit of the financial statements are commented on in the relevant section of this report

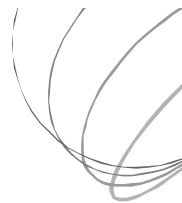
Financial Position

The SPCB Operating Cost Statement records a net administration cost for the financial year of £87 million (2005-06: £85 million), an increase of £2 million or 2.5%.

At 31 March 2007, the SPCB had net assets of £331 million (2005-06: £312 million), mainly reflecting a reduction in capital creditors and retentions.

Performance

During the year a baseline review of the Corporate Body's arrangements for achieving Best Value was carried out. The review sought to establish how well developed those arrangements were against the nine characteristics of the Best Value framework set out by the Scottish Government. Overall the baseline review recorded positive findings in relation to all of the characteristics, with particular strengths in relation to Equal Opportunities, Sustainable Development and Responsiveness and Consultation.



The Scottish Parliamentary Corporate Body's annual report records satisfactory progress against most corporate and business plan targets.

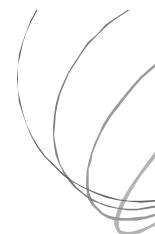
Governance

As part of this year's audit we undertook a review of facilities management arrangements. This work is currently being finalised and we will issue a report in due course. Initial findings have not identified any significant areas of concern. We have also found the work of Internal Audit Services to be satisfactory and continue to place formal reliance on its work.

Looking forward

Audit Scotland has been appointed as the external auditor of the Scottish Parliamentary Corporate Body for the 5-year period to 2010-11. During this period, we will continue to fulfil our responsibilities in accordance with the appointment and with the Code of Audit Practice. As part of the 2007-08 audit we will follow up relevant matters arising from the 2006-07 audit work and build on our understanding of controls and systems by carrying out further reviews. Audit Scotland and the Scottish Parliamentary Corporate Body will work collaboratively in response to issues such as the faster closing agenda; Best Value self assessment; the implications for Scottish Parliamentary Corporate Body of the adoption of International Financial Reporting Standards from 2008-09.

Audit Scotland
December 2007

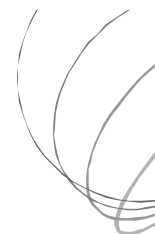


Introduction

1. This report summarises the findings from our 2006-07 audit of the Scottish Parliamentary Corporate Body. The scope of the audit was set out in our Audit Plan, which was presented to the Audit Committee on 19 March 2007. The plan set out the key business priorities and the risks facing the organisation in not achieving these; and described the work we planned to carry out on the financial statements, performance and governance. The key business priorities and risks identified related to:
 - **Support to MSPs:** Provide effective support to MSPs in undertaking their Parliamentary functions including: participating in parliamentary business and representing their constituents
 - **Participation and awareness:** Encourage public engagement with the Parliament by: delivering the opportunity for participation in Parliamentary business and activities; and promoting and increasing awareness and understanding of the Parliament throughout Scotland, and elsewhere
 - **Efficient and effective organisation:** Continue to improve the efficiency and effectiveness of the organisation with a skilled, experienced and motivated workforce; robust corporate and financial governance arrangements; and a well-managed Parliamentary estate
2. In our audit plan we did not highlight specific or particular risks relating to achievement of these business priorities. Rather we recorded the relevant management assurances in these areas and identified the internal and external audit work that would provide assurance in relation to these management assurances. In terms of external audit work, the main areas to contribute were: our planned work following up our corporate governance review, including business continuity arrangements and the planned preliminary work on Best Value. The outcomes in these areas were satisfactory and further detail is provided in the section of the report covering the audit of Performance and Corporate Governance.
3. The key risk identified at the planning stage in relation to the audit of the financial statements was accounting for the Holyrood building. It was anticipated that final costs of construction would be determined during the year, and we were aware of prospective changes to accounting guidance in this area. The planned approach was to follow up as part of the annual audit, including considering the outcome of the review of the completion of the Holyrood project and tracking progress on the updating of guidance on accounting for fixed assets. The outcomes in these areas were satisfactory and further detail is provided in the section of the report covering the audit of Financial Statements.
4. Significant matters arising from the audit of the financial statements and other work by Audit Scotland are commented on in the relevant section of this report. Also, in line with our normal practice, we discuss our detailed audit findings, and record, as appropriate, in separate letters or reports to management.



5. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by the officers of the Scottish Parliamentary Corporate Body during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website, www.audit-scotland.gov.uk .



Financial Statements

6. In this section, we summarise key outcomes from our audit of the Scottish Parliamentary Corporate Body's financial statements for 2006-07, and comment on the key financial management and accounting issues faced.

Our responsibilities

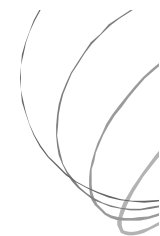
7. We audit the financial statements and give an opinion on:
 - whether they give a true and fair view of the financial position of the Scottish Parliamentary Corporate Body and its expenditure and income for the period in question
 - whether they were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements
 - in all material respects, the expenditure and receipts are regular (comply with statutes and guidance).
8. We also review the statement on internal control by:
 - considering the adequacy of the process put in place by the Chief Executive as Accountable Officer to obtain assurances on systems of internal control
 - assessing whether disclosures in the statement are consistent with our knowledge of the Scottish Parliamentary Corporate Body.

Overall conclusion

9. In relation to these responsibilities we have given an **unqualified** opinion on the financial statements of the Scottish Parliamentary Corporate Body for 2006-07.

Financial Position

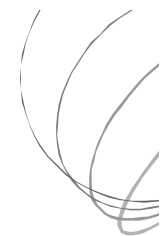
10. The SPCB Operating Cost Statement records a net administration cost for the financial year of £87 million (2005-06: £85 million), an increase of £2 million or 2.5%. Of this, staff costs have increased by £0.9 million (3%) to £31.2 million (2005-06: £30.3 million). Other administration costs were £50.6 million (2005-06: £50.0 million) an increase of 1%. Within this there were higher percentage increases in utilities and other accommodation costs, offset to an extent by lower costs on the category of other expenditure items, which includes expenditure on contractors and consultants. The final main



category of expenditure relates to the funding of the Ombudsman and Commissioners. The outturn in this area was £5.8 million (2005-06: £5.1 million) an increase of £0.7 million, or 14%.

Issues arising from the audit of the financial statements

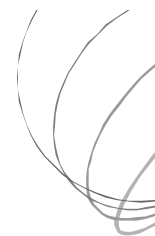
11. International Standard on Auditing (ISA) 260 requires auditors to report certain matters arising from the audit of the financial statements to 'those charged with governance' prior to the accounts being signed. We reported in the terms of ISA 260 to the Chief Executive and members of the Advisory Audit Board in October 2007. The key issues arising on the financial statement are recorded below.
12. There are no significant issues or concerns arising in this area, but there are two aspects of accounting for the Holyrood building that merit comment.
13. **Indexation:** On completion in 2004-05, the Holyrood building was valued at less than the costs of construction and the difference was written off to the Operating Cost Statement. In line with accounting guidance the valuation was updated through indexation in 2005-06 with the gain in value (£5.8 million) credited to the Operating Cost Statement. In 2006-07 the Financial Reporting Advisory Board reviewed guidance on fixed assets and clarified that a write down arising on the first Depreciated Replacement Cost valuation should be treated as an impairment, with subsequent increases in value caused by indexations to be reflected in the Revaluation Reserve. This clarification represents a change from the accounting policy applied by SPCB in 2005-06 and has been correctly reflected in the 2006-07 accounts by means of a prior period adjustment. Because Parliament authorises the use of resources on an annual basis, it is necessary to reflect the impact of any prior period adjustments in the budget to outturn comparison (Schedule 1) in the current year. Thus the £5.8 million credit to outturn in 2005-06 is recognised as a consumption of resource in Schedule 1 for 2006-07.
14. **Finalisation of costs to completion:** In 2004-05 the costs of constructing the Holyrood building were capitalised at £420.7 million (being estimated project costs less contingency), with the estimated final bills being recorded as a capital accrual. In February 2007 costs were finalised at £6.3 million less than those originally capitalised and the remaining capital accrual adjusted accordingly. £4.0 million of the adjustment related to land and buildings and £2.3 million to fixtures and fittings. In relation to land and buildings, had these figures been known in 2004-05 the write down to valuation would have been £4.0 million less and, as a result, in 2006-07, there is a credit to the Operating Cost Statement of £4.0 million. In relation to fixtures and fittings, £2.3 million less would have been capitalised. The cumulative depreciation of £1.0 million charged in respect of the excess amount capitalised has been reversed by an equivalent credit to the 2006-07 Operating Cost Statement. In summary therefore, the estimated costs to completion of the Holyrood building have been finalised; as a correction of an accounting estimate the adjustment is correctly shown as a current year item. The net effect is to



reduce the capital accrual by £6.3 million, reduce the net book value (cost) of fixtures and fittings by £1.3 million and credit the Operating Cost Statement by £5.0 million.

Statement on Internal Control

15. The Statement on Internal Control provided by the Scottish Parliamentary Corporate Body's Accountable Officer reflected the main findings from both external and internal audit work. The statement recorded management's responsibility for maintaining a sound system of internal control and set out the SPCB's approach.
16. We are satisfied that the Statement complies with the relevant guidance in the Scottish Public Finance Manual; the process put in place by the Accountable Officer to obtain assurances on systems of internal control is adequate; and the contents of the Statement are not inconsistent with the information emerging from our normal audit work.

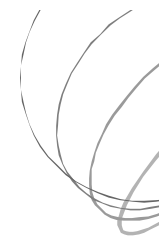


Performance

17. As part of our audit we are required to plan reviews of aspects of the arrangements to manage performance, as they relate to economy, efficiency and effectiveness in the use of resources. Accountable officers have a duty to ensure the resources of their organisation are used economically, efficiently and effectively. These arrangements were extended in April 2002 to include a duty to ensure 'best value' in the use of resources.

Best Value

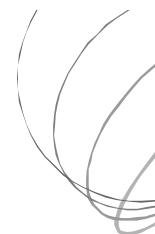
18. We recently issued a report which records the outcomes of a consideration of the SPCB's Best Value arrangements by both the SPCB and Audit Scotland with the goal of recording a fair statement of the arrangements that are in place. Audit Scotland did not audit whether the SPCB is achieving Best Value. For that reason we have called this a baseline review of arrangements. Audit Scotland is currently developing its approach to the audit of Best Value in the NHS and Central Government. Pilot exercises will be undertaken in a number of bodies during 2007-08.
19. The review set out to capture a snapshot of what continuous improvement means to the SPCB and the SPCB's current arrangements are assessed against the 9 Best Value characteristics. Elements of the review build on the review of corporate governance undertaken a year earlier. Although we recognise that the SPCB operates in the specific environment of a devolved Parliament, the evaluation of the SPCB's arrangements takes account of relevant findings from baseline reviews carried out at central government bodies. The report seeks to identify areas for potential development from this comparative evaluation. It does not however identify recommendations or a development timetable. This will likely arise from the fuller review of Best Value planned by SPCB for 2008-09.
20. Key areas of development for the SPCB over the last three years include:
- improving the budgetary planning and management processes; and the internal control environment including appropriate reconciliations
 - commitment to public involvement through proceedings and information being made publicly available on the Holyrood TV and through the Parliamentary website
 - quarterly publication of detailed information on MSPs' expenses
 - audits of equal opportunities, equal pay, health and wellbeing to ensure continued improvement
 - a review by Audit Scotland of Corporate Governance and production of a governance action plan



- development of a comprehensive Contractor Performance Management system to ensure that key performance indicators are met and continuous improvement is embedded throughout the lifetime of a contract.
21. The SPCB and the Holyrood building are relatively new. The arrangements for delivery of the extensive range of support services provided are regularly being reviewed and developed to ensure that they continue to meet the evolving needs of the Parliament and MSPs. Particularly important in this regard is the commitment to a programme of efficiency reviews. Management planning is focussed on the development of Key Performance Indicators for core services. Those PI's set for the 2007-08 year will be monitored.
 22. In terms of its overall arrangements the SPCB shares much common ground with central government organisations in terms of what continuous improvement means to it; it also has in place the main building blocks that are present in other organisations to secure continuous improvement. There is scope to further develop the performance management framework to incorporate more objective reporting of performance – both through incorporating more objective measures (including establishing baseline information to allow internal and external benchmarking) and reflecting more independent validation of performance.
 23. Overall we are able to report positive findings in relation to all the Best Value characteristics. In comparative terms the SPCB has particular strengths in relation to Equal Opportunities, Sustainable Development and Responsiveness & Consultation.
 24. We welcome the SPCB's continuing commitment to applying Best Value principles and we will monitor future progress.

Progress against targets

25. The Scottish Parliamentary Corporate Body's Corporate Plan 2006-08 and Business Plan 2006-07 sets out how the SPCB monitors the achievement of its performance against its business priorities and its programme of key developments via the Chief Executive's reports. We note that these reports and the SPCB's annual report record the progress made. More detailed information on performance is monitored at a directorate level.



Governance

26. This section sets out our main findings arising in relation to the Scottish Parliamentary Corporate Body's governance arrangements. Below we comment on:

- our overview of governance arrangements
- systems of internal control
- internal audit, and
- aspects of information and communications technology (ICT).

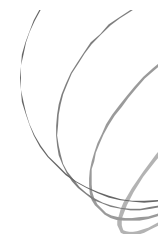
Overview of governance arrangements

27. We conducted a review and evaluation of the governance arrangements relating to the Scottish Parliamentary Corporate Body, reporting in November 2006. The SPCB formally responded to the recommendations in January 2007. This work covered both the overall framework within which the Scottish Parliamentary Corporate Body operates and its internal arrangements.
28. The SPCB responded positively to recommendations made in the report, and provided details of action taken or planned to address 17 of the 20 issues raised. We will follow up progress on these in our 2007/08 audit.
29. The remaining 3 areas were not viewed by the SPCB as key to improving governance arrangements at this time. These recommendations related to the roles and responsibilities of non-executives and the Presiding Officer. These issues will be kept under review by the SPCB depending on prevailing circumstances at any particular time.

Systems of internal control

Facilities management of maintenance

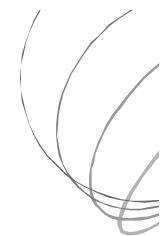
30. As part of our audit of the SPCB for the financial year 2006/07, we reviewed aspects of the performance management and governance arrangements with regard to the SPCB's facilities management function, in particular the arrangements for planned and reactive maintenance of the Parliament building and associated assets.



31. Generally, it is clear that, while the SPCB recognises that there are areas for further development, its performance management arrangements with regards to maintenance are well-developed and exist within a culture of continuous improvement.
32. Draft findings arising from our work to date include:
- Facilities Management (FM) has established posts of Performance Manager, Customer Relationship Manager, and Maintenance Planner reflecting good practice
 - the Technology & Facilities Management Directorate's Management Plan sets out KPIs that cover planned and reactive maintenance
 - FM has developed a Maintenance Strategy that includes a number of objectives, each of which is supported by an action plan that includes deadlines and allocations of responsibility
 - FM is in the process of undertaking an exercise to identify the criticality of assets for the purpose of prioritising and scheduling maintenance tasks
 - the lack of integration of maintenance systems has been identified as an area for improvement in previous reports, and FM is investigating whether there is available functionality within current systems to address this
 - FM prepares a 6-monthly Performance Status Report
 - overall, arrangements for planned and reactive maintenance, and related performance measurement, operate within a strong and appropriate Corporate Governance framework.

Scottish Government central systems

33. The Scottish Parliamentary Corporate Body uses Scottish Government central systems. As auditors we rely on colleagues auditing Scottish Government systems to provide assurance that central systems and related key controls and procedures are operating satisfactorily in the following areas:
- the operation of the main accounting system (SEAS)
 - the central aspects of the operation of the payroll systems.
34. We obtained the appropriate assurances for these systems.



Internal Audit

35. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and, as part of our risk assessment and planning process for the 2006-07 audit, we assessed whether we could place reliance on the Scottish Parliamentary Corporate Body's internal audit function.
36. We work closely with internal audit to make best use of audit resources. For 2006/7, we planned to place reliance on internal audit in the following areas:

Purchase and payments	Procurement and Tendering Reviews
Consultant and Contractor Appointments	MSP Pension Fund
Risk Management	Holyrood Project Closure
Payroll	

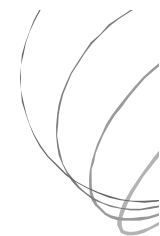
37. We reviewed these reports. None of the observations and related risks precluded planned assurance from being taken for our financial statements audit. The other areas examined by internal audit provided assurance in relation to our assessment of corporate governance arrangements.
38. The Head of Internal Audit reported to the Chief Executive/Clerk that his overall conclusion was that a **reasonable level of assurance** can be taken on the adequacy and effectiveness of the systems of internal control in the areas reviewed.

Finance Review

39. The Finance Change Programme continues to make good progress, especially with regard to team development and communication. However, some planned areas of improvement have slipped against original targets. In the area of systems development there have been particular issues regarding the Scottish Executive Accounting System (SEAS). Notwithstanding the SPCB's active involvement in proposing further development to this system, there is still a lack of clarity from the Scottish Government's SEAS development team regarding the timing and nature of system enhancements. This impacts on the SPCB's ability to plan its future financial strategy.

Information and Communication Technology

40. As part of our risk-based assessment, carried out during the initial planning stage of the audit, we identified Information and Communication technology as a priority area for review in 2006-07. The



following sections summarise the ICT report that we issued to management as part of our 2006-07 audit programme.

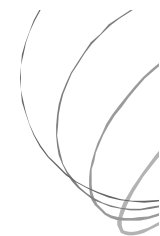
Computer Services Review

41. At this stage in the cycle of our involvement with the audit of the Scottish Parliamentary Corporate Body (SPCB) we considered it appropriate to take stock of the SPCB's Information and Communication Technology (ICT) arrangements. As a result, management were asked to complete a Computer Service Review Client Questionnaire (CSR-CQ) and our findings below are based on a review of documentation provided and interviews with staff. The CSR-CQ provides a high-level risk based assessment of ICT services. However, given the high-level nature of the review, the process cannot be relied upon to detect all of the strengths, challenges or risk areas that may exist.

42. Our overall assessment is that the SPCB has made improvements in the provision of ICT arrangements over recent years and the SPCB has implemented good practice in a number of areas including:
 - the Directors Group undertaking the role of a steering group to provide governance to the SPCB's Technology Portfolio
 - providing a clear organisational structure together with clearly defined roles, responsibilities and accountability, for all aspects of ICT
 - ensuring that the business areas are getting the appropriate level of service from the Business and Information Technology (BIT) Office and monitoring contracts and service level agreements with key service providers.
 - providing a significant level of network resiliency and adopting a formal risk assessment process prior to adopting any new technology which could compromise the network

43. Our review also identified a number of projects that will have a significant impact on the way that the SPCB operate and manage their ICT services. In particular, they are undertaking the following:
 - an Information Security Management System (ISMS) project which will ensure that the SPCB follow industry best practice as defined in ISO 27001¹
 - an Information Management Strategy (IMS) project in order to develop an IMS and a business case for its implementation

¹ BS ISO/IEC 27001:2005 is the updated international standard for information security management systems. It is based on Part 2 of the original British Standard BS7799. Part 1 of BS7799 is now also known as BS ISO/IEC 17799:2005 - Code of practice for information security management.

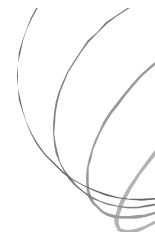


- several projects running under the IT Service Management umbrella which are aligned to the ITIL (IT Infrastructure Library) framework, and include IT Change Management and IT Configuration Management.

While the IMS is in a relatively early phase, the other projects are at various stages of completion. The CSR-CQ confirmed the potential need for development in a number of areas that will be covered by these projects. We plan to keep the topics in view and will monitor progress in the future.

44. In addition, outside of these major projects we have also identified areas where improvements can be incorporated into current operational practice. The SPCB can improve its arrangements by:

- updating its IT strategy to ensure it is aligned to the corporate plans
- aligning IT disaster recovery planning with the outcomes of the Business Continuity System Management project to ensure that disaster recovery plans exist for all business critical systems.



Looking Forward

45. Audit Scotland has been appointed as the external auditor of the SPCB for the 5-year period to 2010-11. During this period, we will continue to fulfil our responsibilities in accordance with the appointment and with the Code of Audit Practice. As part of the 2007-08 audit we will follow up relevant matters arising from the 2006-07 audit work and build on our understanding of controls and systems by carrying out further reviews. For example, we will follow up our work on Corporate Governance both at an organisation-wide level and through drilling down to build up our knowledge of the Directorate dimension of arrangements, including the operation of high level controls and reporting.
46. Audit Scotland and the SPCB will work collaboratively in response to issues such as the faster closing agenda and the implications for the SPCB of the adoption of International Financial Reporting Standards from 2008-09.

Audit Scotland
December 2007