

Scottish Parliamentary Corporate Body

Report on the 2008/09 audit

November 2009

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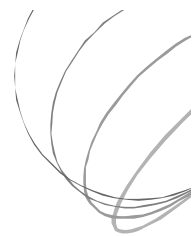
AUDIT SCOTLAND

Scottish Parliamentary Corporate Body

Report on the 2008/09 Audit

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Key Messages

Our audit was based on understanding the key strategic and financial risks being faced by the Scottish Parliamentary Corporate Body (SPCB). We audited the financial statements and we also reviewed relevant aspects of governance. This report sets out our key findings.

Financial Statements

Following our audit of the financial statements of the SPCB for 2008/09 we have provided an unqualified audit opinion. 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.

Financial Position

During 2008/09 the SPCB recorded a net outturn for resource and capital expenditure of £95.4 million, which was within the Budget Act limit of £99.5 million. The Operating Cost Statement records a net administration cost for the financial year of £93.6 million, an increase of £5.1 million or 5.7% from 2007/08. The balance sheet moved from an opening position of £335.7 million to a closing balance of £320.1 million; the most significant component being the reduction in the carrying value of the Parliament building.

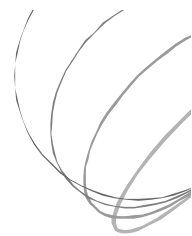
In November 2008 the Finance Committee of the Scottish Parliament considered the SPCB's budget bid for 2009-10 of £103.5 million, covering both capital and revenue. This represented an increase of 2.5% over the 2008-09 budget at that time and has been approved as part of the Budget Act 2009.

Governance

Corporate governance is concerned with the structures and processes for decision making, accountability, control and behaviour at the upper levels of an organisation. As a result of our audit work in this area we have concluded that, overall, the corporate governance and control arrangements for the SPCB operated satisfactorily during the year, as reflected in the Statement on Internal Control.

In our interim audit we reviewed progress on corporate governance developments through discussion with key staff and, in particular, evaluation of the developments in arrangements for risk management and the new Strategic Plan for 2009/10. We concluded that further progress had been made in these areas and we will continue to monitor future developments, including the further development of Key Performance Indicators.

The operation of an efficient and effective internal audit function forms a key element of governance and stewardship. We assessed the operation of the SPCB's internal audit function against Government Internal



Audit Standards and established good practice. We concluded that internal audit continues to comply with relevant criteria and that we are able to place reliance on their work for the purposes of our audit.

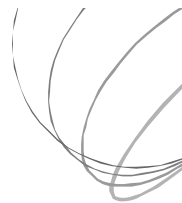
We also examined the arrangements for early severance/ early retirement that operated in 2008/09. The Clerk/ Chief Executive provided an overview; and we discussed further with relevant officials, confirmed to supporting documentation and checked relevant calculations. As a result we were able to provide assurance as to the propriety and regularity of the arrangements.

Looking forward

The final part of our report notes some challenges for the SPCB going forward. There are developments in financial accounting, such as the implementation of International Financial Reporting Standards (IFRS); the revaluation of the Holyrood building; and the possible adoption of FRS 17 accounting for MSP pensions. Through our discussions with SPCB staff we understand that relevant action in relation to these developments is in hand. Also, SPCB will further develop its governance arrangements through the corporate change programme; further development of information security arrangements; and through the need to respond to tighter public sector financial settlements and we will follow up aspects of these as relevant to our 2009/10 audit.

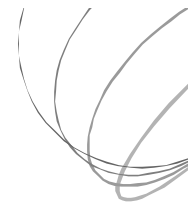
The assistance and co-operation given to us during our audit is gratefully acknowledged.

Audit Scotland
November 2009



Introduction

1. This report summarises the findings from our 2008/09 audit of the Scottish Parliamentary Corporate Body (SPCB). The scope of the audit was set out in our Audit Plan, which was presented to the Advisory Audit Board on 15 April 2009 and updated following discussions with the Board. The Audit Plan described the work we planned to carry out, the primary focus being an audit of the financial statements and review of the SPCB's arrangements for governance and internal control.
2. The contents of this report have been agreed with relevant officers to confirm factual accuracy. We have also issued an interim report to management, which was discussed at the Advisory Audit Board Meeting on 10 June 2009.
3. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by the officers of the SPCB 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

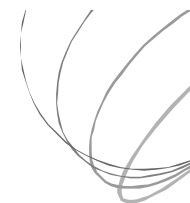
4. In this section we summarise key outcomes from our audit of the SPCB's financial statements for 2008/09 and comment on the key accounting issues arising. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available and its financial performance in the use of those resources.

Our responsibilities

5. We audit the financial statements and give an opinion on whether:
 - they give a true and fair view of the financial position of the SPCB and its expenditure and income for the period in question;
 - they and the part of the Remuneration Report to be audited were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
 - the information which comprises the Management Commentary is consistent with the financial statements; and
 - whether, in all material respects, the expenditure and receipts are regular (comply with statutes and guidance).
6. We also review the statement on internal control by:
 - considering the adequacy of the process put in place by the Clerk to the Parliament and Chief Executive, in his role as Principal Accountable Officer, to obtain assurances on systems of internal control; and
 - assessing whether disclosures in the statement are consistent with our knowledge of the SPCB.

Overall conclusion

7. The Auditor General for Scotland has given an unqualified audit opinion on the financial statements of the SPCB for 2008/09.



Issues arising from the audit of the financial statements

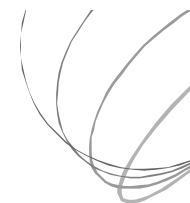
8. In line with agreed plans, the first draft account was submitted for audit on 30 June 2009 with supporting schedules provided shortly after. The working papers to support the draft accounts were of a high standard; and were supplemented by appropriate management review processes. The draft accounts and the outcome of the audit were considered by the Advisory Audit Board on 30 September 2009, with the accounts presented to the Corporate Body at their meeting on 28 October 2009 and were then signed by the Principal Accountable Officer.
9. 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. As indicated we reported in the terms of ISA 260 to the members of the Advisory Audit Board and Principal Accountable Officer on 30 September 2009. We confirmed that there were no significant issues or concerns that required to be drawn to the attention of those charged with governance. There were no unadjusted errors in the financial statements presented to the Advisory Audit Board.

Regularity assertion

10. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have addressed the requirements of the regularity assertion through a range of procedures, including written assurances from the Principal Accountable Officer as to his view on adherence to enactments and guidance. No significant items were identified for disclosure.

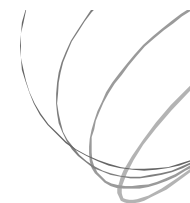
Statement on Internal Control

11. The Statement on Internal Control provided by the SPCB's Principal Accountable Officer complies with the relevant guidance in the Scottish Public Finance Manual; the process put in place by the Principal 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. Further details are provided in the Governance and Accountability section of this report at paragraphs 35 to 37.



International financial reporting standards (IFRS)

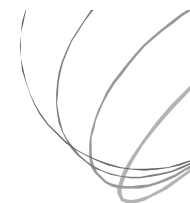
12. As announced by the Chancellor in the 2008 Budget report, Government departments and other public sector bodies will report using International Financial Reporting Standards (IFRS) from 2009/10. The Scottish Government announced in April 2008 that all relevant bodies would be required to produce shadow IFRS based accounts for financial year 2008/09. This was to include a restated balance sheet as at 1 April 2008. SPCB decided to adopt parallel arrangements.
13. In terms of the audit of the IFRS opening balance sheet at 1 April 2008, there were two key dates to achieve as outlined below:
 - **28 November 2008** – opening 2008 IFRS-based balance sheet were to be presented to auditors for dry-run audit.
 - **28 February 2009** – dry-run audit of opening balances was to be completed, resulting in a letter to management highlighting the work done, auditors' findings and areas for further work.
14. The opening balance sheet and supporting documentation were submitted by the SPCB for audit review by the deadline date of 28 November 2008. The restated balance sheet and supporting working papers were comprehensive.
15. Our report highlighted that HM Treasury are to issue guidance clarifying the required treatment of intangibles under IFRS. Further work may be required in respect of derecognised assets (software and intangibles) due to further clarification being provided on this area to ensure that the shadow IFRS accounts for 2008/09 and full IFRS accounts in 2009/10 are true and fair.



Financial Position

Outturn 2008/09

16. The SPCB's net outturn on capital and revenue was £95.4 million, £4.1 million below the overall limit of £99.5 million authorised by the Budget Act following the Spring revision. This comprised:
 - an outturn on net administration costs of £93.6 million; and
 - £1.8 million capital expenditure.
17. Net administration costs for the financial year were £93.6 million, an increase of £5.1 million or 5.7% from 2007/08.
18. Members and staff costs increased by £2.2 million (6.6%) to £35.1 million. A number of factors were responsible for this net increase. Expenditure increased on Voluntary Early Severance/ Early Retirement (+£1.7 million) and contractors/ agency staff (+£0.5 million) previously charged to Administration; excluding those two items, SPCB staff costs have increased by £0.9 million. MSP costs are down by £0.9 million, reflecting mainly that resettlement grant was not paid in 2008-09 (£1.3 million resettlement grant was paid in 2007-08 relating to changes arising from the election). We provide further commentary on the Voluntary Early Severance/Early Retirement scheme at paragraph 38.
19. Other administration costs have increased by £2.8 million or 5.6% compared to 2007-08. This increase reflects changes across a range of expenditure heads; MSP allowances totalling £10.5 million (2007/08: £9.7 million) an increase of 8.2%; an increase of approximately £1.5 million on a number of building and maintenance related projects.
20. The final main category within administration costs relates to the funding of the Ombudsman and Commissioners. The outturn in this area was £7.2 million (2007/08: £6.4 million) an increase of £0.8 million, or 12.5%, which was mainly due to the first full year of operation for the Scottish Commission for Human Rights.
21. Costs were offset by extra other income (£0.6 million) arising from monies recovered from contractors relating to costs associated with the strut in the debating chamber which came loose in 2006.
22. The net assets of the SPCB decreased by £15.6 million over the year to £320.1 million. Fixed assets decreased by a net £17.7 million, reflecting a reduction in the relevant RICS tender price index for the Holyrood building (£7.8 million) and depreciation of £11.6 million, offset by capital additions of £1.7 million. Current assets decreased by £2.6 million, largely due a significant reduction in cash held in



the OPG account. Current and non-current liabilities reduced by a net £4.6 million; this is the net effect of the reduction in cash balances (PGO bank balances are matched by a creditor), a further reduction in capital accruals and a reduction in trade creditors, reflecting the impact of reducing the payment of suppliers from 30 days to 10 days; these reductions were offset by the introduction of the accrual for Voluntary Early Severance/ Early Retirement. These changes in net assets were represented by a decrease in the revaluation reserve of £8.2 million and a reduction in the general fund of £7.4 million.

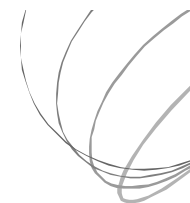
23. Although not directly reflected on the balance sheet, information on the MSPs' pension scheme is disclosed by way of a note to the accounts. This records a shortfall of assets in the Fund at 31 March 2009 of £4.1 million (2007/08:£1.5 million). This comprises Scheme liabilities estimated by the Actuary at £21.2 million as at 31 March 2009, with the value of the related pension fund at that time of £17.1 million (2007/08: liabilities £21.0 million; assets £19.5 million). The Government Actuaries Department carried out a full valuation of the Fund as at 31 March 2008, reporting that the deficit on the Fund had reduced from £0.5 million in 2005 to £0.2 million in 2008. The reported deficit at 31 March 2009 shows how current market volatility has impacted on Fund's assets. However, the Fund Managers quarterly report to September 2009 demonstrates that the Fund's investments have experienced a recovery in line with the market and confirming that a long term view should be taken when considering the financial health of the Pension Scheme.
24. Following the change in the legislative arrangements for the MSP pension scheme the SPCB is considering whether to account for pensions in line with the accounting standard FRS 17 for their 2009/10 accounts; the main provisions of the standard require the employers' contribution in the Operating Cost Statement to be replaced by the actuarial estimate of the pension current service costs and net finance costs. Recent accounts suggest that this will result in an increase in the charge through the Operating Cost Statement in the short term at least. The changes in actuarial liabilities and asset values that have been a source of volatility in recent years should be recorded in the Statement of Recognised Gains and Losses and therefore do not affect resource outturn. SPCB is taking steps to assess the possible financial effect of these changes, including any impact on budgets.

2009/10 Budget

25. In November 2008 the Finance Committee of the Scottish Parliament considered the SPCB's budget bid for 2009-10 of £103.5 million, covering both capital and revenue. This represented an increase of 2.5% over the 2008-09 budget at that time and has been approved as part of the Budget Act 2009. The Committee noted the explanations provided for the various changes in expenditure programmes in the budget bid, and some of the difficult choices made by the SPCB to restrict its budget bid. Some of the measures taken to control the budget included closure of the Parliament facilities to visitors on Sundays.



26. The Finance Committee, in considering the Scottish Government's budget, noted that Scottish Government spending is set to decline in the next few years as public finances come under increasing pressure from the effects of the recession. The Committee concluded that 2009-10 will be the peak year for public spending for some years to come. Clearly any funding constraints for the public sector in Scotland will impact on the SPCB's own budget bids. The Committee's recommendations concerning steps that the Scottish Government should take to manage budgetary challenges are equally applicable to the SPCB.



Governance and Accountability

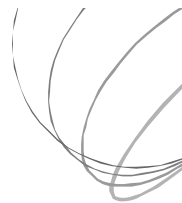
27. Effective structures and processes to govern decision-making and reporting to the public, are fundamental features of governance and accountability. This section sets out our findings arising from a review of the SPCB's arrangements.

Overview of arrangements

28. This year we reviewed:
- governance arrangements;
 - key systems of internal control;
 - internal audit;
 - arrangements for the prevention and detection of fraud and irregularity, including standards of conduct; and
 - aspects of information and communications technology (*ICT*).
29. Our overall conclusion is that arrangements within the SPCB are sound and have operated throughout 2008/09.

Governance arrangements

30. In 2006 we conducted a review and evaluation of the governance arrangements of the SPCB, based on the Good Governance Standard for Public Services (Langlands Commission). The SPCB responded positively to the review, considering the issues raised and planning actions to further develop arrangements as appropriate.
31. Internal Audit's follow up review in 2008, including progress on our recommendations made in 2006, highlighted the SPCB's plans for the further development of key performance indicators (KPIs) for core services and enhancements to the SPCB's approach to risk management.
32. Our interim audit for 2008/09 included a review on corporate governance developments and our findings were reported to the AAB in June 2009. We were pleased to notice that further progress had been made; a statement of respective responsibilities of the SPCB and relevant Parliamentary Committees had been prepared; a suite of KPIs had been drawn up and matched to strategic priorities; the SPCB had formally approved the strategic risk register and had also endorsed the proposed approach to developing the risk framework document.



33. We will continue to monitor developments in this area including the implementation of, and reporting of performance against, KPIs and further clarification on the roles and responsibilities around risk management arrangements.

Systems of internal control

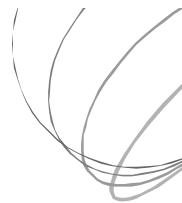
34. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. As recorded in the ISA 260 Report to those charged with governance: “No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the accounts”. Below we provide assurance on the Statement on Internal Control and the scheme for Voluntary Early Retirement/ Early Severance that operated during the year.

Statement on Internal Control

35. The Statement on Internal Control provided by the SPCB’s Principal 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.
36. We are satisfied that the Statement complies with the relevant guidance in the Scottish Public Finance Manual; the process put in place by the Principal 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.
37. Following updated guidance on audit committees, practice is evolving with some committees planning to take a more explicit role in reviewing the assurances obtained by the relevant Accountable Officer in support of the Statement on Internal Control. The main assurances from internal and external audit are presented to the Advisory Audit Board at the meeting that considers the accounts. However, the assurances from management, as recorded in the SPCB’s certificates of assurance process, are pulled together slightly later, being timed to support the signing of the accounts. The Advisory Audit Board and the Principal Accountable Officer may wish to consider the existing arrangements in light of evolving practice.

Early Severance/ Early Retirement

38. The Corporate Change Programme identified a need for a change at a strategic level. From 1 April 2009, as part of the corporate change programme, the number of Directors was reduced from four to three and their roles re-designated as Assistant Clerks/ Chief Executives. In order to effect this

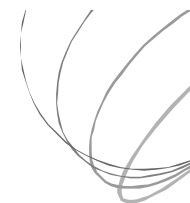


reduction in staff, and in accordance with its Redundancy Policy, the SPCB invited Directors to volunteer for redundancy on compulsory early retirement/ early severance terms. One Director left under this scheme. Additionally, a further senior post was reduced by the merging of two groups. A further part of the change programme was a voluntary early severance/ voluntary early retirement (VER/ES) scheme. This resulted in 6 further successful applicants were approved under the VER/ES scheme. In making their decision, the Corporate Body took account of the fact that, as well as producing wider benefits to the organisation, the proposed staffing changes and associated restructuring opportunities would be self financing within five years, and thereafter, other things being equal would deliver annual savings of the order of £300,000. The current total cost for the 8 individuals taking early severance/early retirement is £1.7 million.

39. We examined the arrangements for the VER/ES scheme. The Clerk/ Chief Executive provided an overview; and we discussed further with relevant officials, confirmed to supporting documentation and checked relevant calculations. The costs were based on information provided by the Department of Work and Pensions and were based on the standard terms of the Principal Civil Service Pension Scheme. We have checked the relevant costs and calculations and are satisfied that the disclosures in the financial statements for 2008-09 are appropriate and accurate.
40. Our audit procedures outlined above confirmed that none of the Directors were involved in the decisions on who would be awarded early retirement/early severance; and that there was no conflict of interest in the Director for the Corporate Change Programme being involved in the process and ultimately being a participant in the early retirement/ early severance arrangements. As a result we were able to provide assurance as to the propriety and regularity of the early retirement/ early severance arrangements.

Internal Audit

41. 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 2008/09 audit, we carried out an assessment of the internal audit function. We reported the findings of our review to the AAB in May 2009. Overall the review concluded that the internal audit service operated in accordance with the Government Internal Audit Standards and has sound documentation and reporting standards in place.



42. We work closely with internal audit to make best use of audit resources. For the audit of the 2008/09 financial statements, we placed formal reliance on the work of internal audit in the following areas:

- Payroll: Members support staff
- Stock
- Members allowances and expenses
- Scotland's Futures Forum

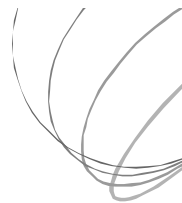
43. We also reviewed and considered other areas of internal audit work that have contributed to our assurance in relation to the Statement on Internal Control and in terms of our broader responsibilities under the Code of Audit Practice. For 2008/09 this includes:

- Budgetary Control
- Review of Fraud Policy
- Corporate Governance Arrangements (considered as part of the 2007-08 audit)
- Events Management
- Procurement and tendering – OGC Gateway Reviews
- Risk Management
- Review of Project Governance Arrangements

44. The Head of Internal Audit reported to the Chief Executive/Clerk that his overall conclusion was that a **strong** level of assurance can be taken on the adequacy and effectiveness of the systems of internal control in the areas reviewed.

Arrangements for the prevention and detection of fraud and irregularity, including standards of conduct

45. We discharged our responsibilities as they relate to the prevention and detection of fraud and irregularity and standards of conduct by reviewing SPCB's arrangements. Overall, we concluded that the arrangements for preventing and detecting fraud and whistle blowing are supported by policy documents that are notified to staff via the SPCB portal and Staff Handbook. We noted that the role of internal audit in relation to advising on the prevention of fraud and investigating fraud is also recorded in the SPCB fraud prevention policy statement. Subsequent to our review internal audit considered this area, reporting in September 2009 that the arrangements were sufficient, but there was scope to review, refresh and re-launch the guidance in this area.



Information and Communication Technology

46. During 2008/09 we followed up our previous review of computer services. Overall the SPCB has made further progress towards the completion of key projects, including business continuity. Also, we discussed information security and the risks to reputation that can be associated with any weaknesses in this area. The responsibility for good practices in information security involves the awareness of all staff, but there are elements that are based in technology, such as encryption, passwords, etc. We will continue to monitor SPCB's arrangements for promoting information security.

Best Value and National Studies

47. We have written separately to the SPCB to keep them informed of developments in Best Value and to draw attention to some of the National Studies that we have undertaken over the past year that we think may be relevant and of interest.



Looking Forward

48. The SPCB faces a number of challenges in 2009-10, which include:

- **International Financial Reporting Standards (IFRS)** – the transition to IFRS requires full “shadow” IFRS accounts for 2008/09 to be prepared by 30 November 2009, with 2009/10 being the first set of statutory IFRS accounts. The process for producing shadow accounts and managing the transition for 2009/10 may require significant resource and it will be important that the restatement is tackled early, with a plan in place to monitor the position.
- **Impact of revaluation of the Holyrood Building** – the first full revaluation of the Parliament will take place as at 31 March 2010. The SPCB has engaged early with the RICS valuer so that the accounting implications of any likely changes can be considered. We will continue to liaise with SPCB staff on this matter and how this will be accounted for under IFRS.
- **Accounting for MSP pensions** – Following the change in the legislative arrangements for the MSP pension scheme the SPCB is considering whether to account for these pensions in line with the accounting standard FRS 17 in its 2009/10 accounts. SPCB is considering the position and taking steps to assess the possible financial effect of these changes should they need to implement them, including any impact on budgets.
- **Corporate Change Programme** – work is underway to develop a new Strategic Plan for 2009/10 and to implement further elements of the Corporate Change Programme. These initiatives will impact on future governance arrangements and, as with any change programme, will require to be carefully managed to avoid any adverse impact on ‘business as usual’.
- **Financial management and affordability** – the Scottish Parliament’s Finance Committee recently noted that Scottish Government spending is set to decline in the next few years as UK public finances come under increasing pressure; and any funding constraints across the public sector are likely to impact on the SPCB. Effective budgeting, monitoring and reporting arrangements will be crucial to the SPCB achieving financial targets within tighter funding settlements; and we will consider the impact of this on our approach to the 2009/10 audit.
- **Data Handling** - The UK and Scottish Governments carried out a review of data handling arrangements which considered current policies and procedures on data protection, consistency with government standards and local arrangements for implementation of procedures. A report published in June 2008 made recommendations for a higher level of oversight and guidance; and improved security of sensitive information. We will monitor the SPCB’s continuing progress against good practice during 2009/10.