



INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

# Risk Management Authority

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

Year ended 31 March 2010

28 June 2010

AUDIT

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**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 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 an opinion on 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.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

### Financial statements

On 28 June 2010 we issued an unqualified audit opinion on the financial statements of the Risk Management Authority ("the Authority") for the year ended 31 March 2010 and on the regularity of the transactions in the financial statements.

The Authority has now converted to International Financial Reporting Standards as interpreted by the government financial reporting manual ("IFReM"). A provision has been recognised in relation to lease dilapidation costs.

Procedures are in place to ensure the regularity of transactions and discussions are held by management on key guidance from the Scottish Government sponsor division, as well as other relevant laws and regulations.

### Use of resources

The financial outturn is within the Scottish Government funding allocation. Efficiency savings for the year were ahead of target due to the Authority having reduced staff numbers. In addition, the reduction of the Authority's budget by £250,000 in 2009-10, was classified as efficiency savings. The Authority's budget for 2010-11 shows a further reduction of £250,000. Management has notified the Authority's sponsor department that retaining current staffing levels will result in an overspend in 2010-11 of around £100,000.

### Corporate governance

The statement on internal control ("SIC") does not disclose any material weaknesses in the Authority's systems of internal control. The content of the SIC is in line with our understanding.

Internal audit's annual report concluded that there was "*reasonable assurance on the risk, control and governance arrangements in place*".

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice* ("The Code"). This specifies a number of objectives for our audit.

### Audit framework

This year was the fourth of our five-year appointment by the Auditor General for Scotland as external auditors of the Risk Management Authority ("the Authority"). This report to the Authority and Auditor General provides our opinion and conclusions and highlights significant issues arising from our work. We outlined the framework under which we operate, under appointment by Audit Scotland, in the audit plan overview discussed with the audit committee earlier in the year.

The purpose of this report is to report our findings as they relate to:

- the **financial statements** and our audit opinions on net operating costs and the regularity of transactions;
- **use of resources**, including financial outturn for the year ended 31 March 2010 and financial plans for 2010-11 and beyond;
- arrangements around **governance and accountability**, including risk management, partnership working and our consideration of the work of internal audit; and
- **performance management** and the Authority's arrangements to achieve efficiency savings.

### Best Value

Audit Scotland and the Scottish Government have been committed to extending the Best Value audit regime across the whole public sector for some time now, with significant amounts of development work having taken place during the last year. Using the Scottish Executive's nine best value principles as the basis for audit activity, Audit Scotland selected five areas as priority development areas (use of resources, governance and risk management, accountability, review and option appraisal, and joint working). A series of toolkits covering financial, performance and governance processes have been developed. There is no mandatory requirement for toolkits to be applied in central government bodies in 2009-10. Best Value was due to be reviewed by internal audit during the year, however due to lack of resources, this has been postponed. It is a duty of the accountable officers of all public sector entities to ensure Best Value is achieved. Accordingly, we recommend that management review the arrangements of the Authority to ensure they are adequate to deliver Best Value.

### **Recommendation one**

### International financial reporting standards

The 2007 Budget announced that central government and health bodies would report under international financial reporting standards ("IFRS"), as adapted by HM Treasury through the financial reporting manual ("IFReM"). The financial statements for the year ended 31 March 2010, including comparative figures for 2008-09, were prepared on the basis of the IFReM.

### Responsibilities of the Authority and its auditors

External auditors do not act as a substitute for the Authority's own responsibilities for putting in place proper arrangements to account for the 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 the accountable officer, to make arrangements to secure Best Value.

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice* ("the *Code*"). This specifies a number of objectives for our audit.

**Action plan**

This report includes an action plan containing areas for development or improvement identified during our financial statements audit fieldwork. We have not repeated recommendations raised in reports issued during our earlier work in respect of our 2009-10 audit. Responsibility for taking action and monitoring progress in response to all our recommendations lies with management.

**Acknowledgement**

We wish to record our appreciation of the continued co-operation and assistance extended to us by your staff during our work.

### Overview

The Authority was established in 2004 by Section 3 of the Criminal Justice (Scotland) Act 2003. In January 2008 the First Minister announced a review of *"the role of the Authority to determine whether integrating the functions into other bodies would improve the effectiveness of systems"*. Following this announcement the Authority worked with the Scottish Government to examine its functions and to ensure that it continued to contribute to best practice in the risk assessment and management of offenders who pose a serious risk to the public. At the start of 2009-10 it was announced that the Authority would retain its independent status, but would work closer with the Scottish Government to assist in the delivery of the Reducing Reoffending Programme, through the development of a management framework agreement.

During 2009-10, following the conclusion of the review of the Authority, a new three year corporate plan was developed and the staff structure was reviewed and revised to reflect the clarified strategic direction.

### Priorities and risk framework

As part of our fieldwork we held discussions with management to gain an understanding of how they are addressing issues included in the Priorities and Risks framework ("PRF") audit planning tool developed by Audit Scotland. We highlight below some of the areas of good practice identified and some risks where continued focus is required.

As noted above, the Authority underwent a significant review of its operations during the year to ensure the **ongoing effectiveness and efficiency** of the organisation. The Authority's processes, procedures and structures were reviewed as part of this, resulting in a number of structural changes. In addition, a number of other changes are being made to achieve additional savings, including switching from hardback publications to electronic documents.

Following approval of the management framework agreement in November 2009, a number of policies and procedures were updated to ensure effective **people and performance management**. This included the 2010-13 corporate plan, the 2010-11 business plan and human resource policies.

Going forward there are risks represented by the budgetary constraints in relation to **planning and resource** alignment.

During 2009-10, the Authority has continued to experience an increase in activity levels. Given the continued increase in the volume of cases, against the backdrop of year on year reductions in budgets, there is a risk that future projected workloads are not sustainable. The Authority has discussed this issue with the Scottish Government sponsor division, but no conclusions have yet been reached.

In other areas of **sustainability**, management are aware of the environmental agenda and are encouraging the reduction of waste by monitoring printing and recycling levels. A new 'cycle to work' scheme has also been introduced.

The Authority has an appraisal system to support the **performance management** process. The Authority has also introduced a system of key performance indicators to monitor performance at both corporate and individual levels.

The **governance** structure is driven by the remit of the board. There are regular meetings of the board and sub-committees of the board. The board discusses risk management procedures, including the risk register which is continuously reviewed to ensure that all risks are being addressed.

We have issued unqualified opinions on the financial statements and the regularity of transactions reflected in those financial statements.

Each of the key issues identified in our audit plan have been reviewed and we consider the treatment applied to each to be appropriate.

We have not identified any further issues during our procedures.

### **Reporting arrangements and timetable**

The draft financial statements were available for audit on 13 May 2010 in line with previous years. The quality of information provided was to a good standard.

### **Audit opinion**

Following approval of the financial statements we issued an audit report expressing unqualified opinions for the year ended 31 March 2010 and on the regularity of transactions reflected in those financial statements.

### **Key issues arising during our audit of the financial statements**

Our audit plan overview narrated four key risk areas and we have concluded our work in each of these areas and summarised the results below.

#### **Property lease**

During 2009-10, management considered the terms of the property lease for St James' House which is due to expire in 2014. Under the terms of this lease the Authority is required to return the premises to the landlord in a specified condition. An estimate was obtained for the costs of returning the property to the required condition and a provision of £12,000 has been established to account for this cost over the remaining life of the lease in line with IFRS.

#### **Compliance with IFRS as interpreted by the IFRsM issued by HM Treasury**

As part of the transition to IFRS we performed a review of the shadow financial statements and reported findings in February 2010. Our report included recommendations in a number of areas, each of which has now been addressed. The main change as a result of the move to IFRS has been the overall format of the financial statements.

#### **Accounting for research activity**

The Authority continues to commission research activity from time to time. It is important that this expenditure is considered to ensure it is accounted for in line with the IFRsM, particularly in relation to any research activity around the year end. Management has confirmed that there was no significant research activity around the year end that would require to be reflected in the financial statements.

#### **Financial statements production process**

The Authority has historically used the Scottish Government Accountancy Services to produce its financial statements, a process that did not operate efficiently in 2008-09. Management has taken control of the production process in 2009-10. This has resulted in a smoother and more efficient process.

**Regularity of transactions**

In reviewing the regularity of expenditure, we updated our understanding over the processes which have been established to receive Scottish Government circulars, register, allocate and distribute responsibility for action points and monitor and follow up these action points. Relevant guidance is included on the agendas for quarterly meetings with the sponsor team at the Scottish Government where actions are agreed.

**Service organisations**

Our audit approach is tailored to reflect the Authority's arrangements whereby accountancy services are provided by the Scottish Government.



## Use of resources; financial planning

The financial statements report a surplus against Scottish Government funding in 2009-10. The budget for 2010-11 shows a further reduction in funding of £250,000, giving a budget for 2010-11 of £1 million. Management has notified the Authority's sponsor department that retaining current staffing levels will result in an overspend in 2010-11 of around £100,000.

### Financial position

Performance against financial targets was as follows:

£'000	Budget (£000)	Outturn (£000)	Variance (£000)
Revenue expenditure	1,250	1,067	183
Capital expenditure	10	-	10

The Authority achieved an outturn of £1,067,000, against a budget of £1,250,000, which was reduced from £1,500,000 in 2008-09. The main reason for the underspend against budget was a saving in staff costs due to a number of vacancies during the year. In addition, there were some other small savings in administration. The Authority limited its 'draw down' of cash in the year through the use of existing cash and reserves to fund activities. Actual 'draw down' of cash from the Scottish Government for 2010-11 was £892,000.

The Authority's sponsor department confirmed that meeting the reduction in budget in the year constituted efficiency savings. On this basis the Authority more than met the 2% efficiency target for 2009-10. In addition, further efficiency savings were obtained due to operating at reduced staffing levels for the year.

### Financial planning

In preparing the 2010-11 budget, management was aware of the need to reduce costs to meet the reduced allocation of £1 million. Management has notified the Authority's sponsor department that retaining current staffing levels will result in an overspend in 2010-11 of around £100,000. The sponsor department has acknowledged this and requested that staffing levels are kept at current levels, although no further funding has been offered. As a result, management consider that in 2010-11 it is likely the Authority will overspend by £100,000.

### Key risks

The diagram below summarises the key risks identified by management, together with additional risks identified during our audit work

#### Key risks identified by management

- Management is aware of the risk that should the case load continue to increase there may be insufficient resources available to meet requirements.
- Management has already identified that they are likely to overspend the 2010-11 budget by £100,000, based on current projections. The Authority's sponsor department has been advised of this risk.

#### Key risks identified by KPMG

- We note there is a risk of a reduction in quality of Order for Lifelong Restriction case management and research should the Authority continue to operate within tight budgetary constraints.

The statement on internal control does not identify any significant weaknesses in the systems of internal control. The content of the statement is consistent with our understanding of the Authority.

Internal audit concluded that there was reasonable assurance on the risk, control and governance arrangements established by the Authority.

Overall, the majority of key financial controls are designed and operating effectively and are compatible with the size of the organisation.

### **Introduction**

Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour. 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 corporate governance arrangements as they relate to:

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

### **Governance framework**

The Authority's corporate governance framework was established in line with the management statement and associated financial memorandum with the Scottish Government. The management statement sets out the broad framework within which the Authority should operate and details the responsibility and accountability of the Scottish Ministers, the chair of the Authority and the Authority's accountable officer. The financial memorandum sets out financial requirements in greater detail.

The Authority currently operates with a convener, chief executive and a board of seven members appointed by the Scottish Ministers. The Ethical Standards in Public Life etc (Scotland) Act 2000 required the implementation of a code of conduct for board members, outlining their responsibilities. In line with the model code, the Authority's code contains rules of conduct on:

- general conduct;
- registration and declaration of interests;
- lobbying and access to members of public bodies; and
- political activity.

The register of interest of members is updated twice annually and is made available for review on the Authority's website.

We considered the Authority's corporate governance arrangements, which, combined with that of internal audit, allowed us to conclude that, the corporate governance framework has been designed and implemented appropriately.

#### Internal audit

Internal audit did not complete their full plan for the year due to delays in issuance of Best Value toolkits and guidance. Work was completed however on financial governance, compliance with management statement and financial memorandum, validation of performance indicators and also assets and inventory. The Authority received internal audit's annual report in March 2010, which concluded that they could "*provide reasonable assurance on the risk, control and governance arrangements in place*". Internal audit identified four 'medium' priority recommendations and one 'high' priority recommendation. The area of 'higher risk' highlighted was the absence of periodic asset checks to confirm the status of physical assets. The asset register is not regularly updated and the asset numbers listed on the asset register spreadsheet do not match those on the physical assets. In addition, internal audit noted that assets were assigned to several former members of staff and the internal audit team. Internal audit recommended that the asset register is updated and that a physical check is carried out regularly and documented.

#### Internal controls

Our testing, combined with that of internal audit, of the design and operation of controls over significant risk points confirms that, overall, controls are designed appropriately and operating effectively.

The statement on internal control provides details of the purpose of the system of internal control, the risk and control framework and the effectiveness of this framework. The statement complies with Scottish Government guidance.

**Audit Scotland national reports**

Audit Scotland periodically undertakes national studies on topics relevant to the performance of central government bodies. While the recommendations from some of the studies may have a national application, elements of the recommendations are also capable of implementation at local level, as appropriate.

In February 2010 we reported action taken by management in response to the following reports:

- Improving civil contingency planning;
- Scotland's Public finances: preparing for the future; and
- Improving public sector purchasing.

At the time of preparation of our return to Audit Scotland, management was not aware of receiving such reports. However, these reports have subsequently been located. Audit Scotland consider that national reports should be noted or considered at board or committee level where there may be recommendations capable of implementation at local level.

***Recommendation two***

# Appendix one – action plan

## Priority rating for recommendations

**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 Authority or systems under consideration. The weakness may therefore give rise to loss or error.

**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.

**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.

No.	Issue and recommendation	Management response	Officer and due date
1	<p>Audit Scotland and the Scottish Government have been committed to extending the Best Value audit regime across the whole public sector for some time. There was no mandatory requirement for toolkits to be applied in central government bodies in 2009-10. Best Value was due to be reviewed by internal audit during the year, however due to a lack of resources, this has been postponed.</p> <p>It is a duty of the accountable officers of all public sector entities to ensure Best Value is achieved. Accordingly, we recommend that management review the arrangements of the Authority to ensure they are adequate to achieve Best Value.</p> <p><i>(Grade two)</i></p>	<p>The Authority will review Best Value toolkits and report to the audit committee on recommendations from findings</p>	<p>Director of Business Performance 31 November 2010</p>
2	<p>Audit Scotland periodically undertakes national studies on topics relevant to the performance of central government bodies with recommendations that may be capable of implementation at local level.</p> <p>The Authority does not currently have a process to appropriately consider these reports.</p> <p>We recommend that a process be established for Audit Scotland national reports, to be logged when received and then, where relevant, to be considered at board / committee level as appropriate.</p> <p><i>(Grade two)</i></p>	<p>The Authority will develop a process to consider Audit Scotland reports.</p>	<p>Director of Business Performance 31 August 2010</p>