

# Scottish Parliament Corporate Body

Report on the 2009/10 audit to the Scottish Parliamentary  
Corporate Body and the Auditor General for Scotland

November 2010



 AUDIT SCOTLAND

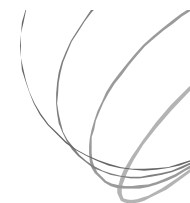


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# Contents

Key messages	1	Governance and Accountability	9
Introduction	3	Looking Forward	14
Financial Statements	4		
Use of Resources	7		



# Key messages

In 2009/10 we looked at the key strategic and financial risks being faced by the Scottish Parliamentary Corporate Body (SPCB). We audited the financial statements and we also reviewed the use of resources and relevant aspects of governance. This report sets out our key findings.

## Financial statements

We have given an unqualified opinion on the financial statements of the SPCB for 2009/10. 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 comment on pensions accounting and the valuation of the Holyrood building, confirming their appropriate treatment in the financial statements.

## Use of resources

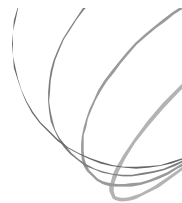
During 2009/10 the SPCB recorded a net outturn for resource and capital expenditure of £98 million, which was within the Budget Act limit of £103.5 million. The Operating Cost Statement records a net administration cost for the financial year of £96 million, an increase of £2 million from 2008/09. The balance sheet moved from an opening position of £316 million to a closing balance of £295 million; the most significant components being the reduction in the recorded value of the Parliament building and the introduction of a net liability for MSPs' pensions as part of the adoption of IAS 19 (accounting for employee benefits).

In November 2009 the Finance Committee of the Scottish Parliament considered the SPCB's budget bid for 2010-11 of £102.1 million, covering both capital and revenue. This represented a decrease of 1.4% over the 2009-10 budget at that time (£103.5 million) and has been approved as part of the Budget Act 2010. In April 2010, the SPCB's Chief Executive announced its approach to future resource planning would reduce its overall budget in line with any real term reduction in the Scottish Budget. SPCB needs to maintain a tight control over the use of its resources during 2010/11 and to review its spending plans in the short to medium term to meet the target savings.

## Governance and accountability

Corporate Governance is concerned with the structures and process for decision making, accountability, control and behaviour at the upper levels of an organisation. Overall the corporate governance and control arrangements for the SPCB operated satisfactorily during the year, as reflected in the Statement on Internal Control.

We note continued progress on corporate governance developments such as the arrangements for risk management; reporting on Key Performance Indicators; the updating of the SPCB's Code of Conduct; and the continuing development of information security arrangements.



We examined the key financial systems which underpin the organisation's control environment. We concluded that financial systems and procedures operated sufficiently well to enable us to place reliance on them. We note the satisfactory implementation of the relevant audit recommendations arising from the review of MSPs' reimbursable expenses by Sir Neil McIntosh (December 2009).

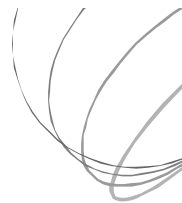
The operation of an efficient and effective internal audit function forms a key element of governance and stewardship. We assessed the operation of the SPCB's internal audit function against Government Internal Audit Standards and established good practice. We concluded that internal audit continues to comply with relevant criteria and that we are able to place reliance on their work for the purposes of our audit.

### **Looking forward**

The final part of our report notes some key risk areas and issues for the SPCB, including continuing to deliver key functions and services against tighter funding settlements and the Scottish elections in May 2011.

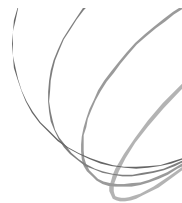
The assistance and co-operation given to us during our audit is gratefully acknowledged.

**Audit Scotland**  
**November 2010**



# Introduction

1. This report summarises the findings from our 2009/10 audit of the Scottish Parliamentary Corporate Body (SPCB). The scope of the audit was set out in our Audit Plan in accordance with the Code of Audit Practice, which was presented to the Advisory Audit Board on 10 February 2010. The plan set out our views on the key business risks facing the organisation and described the work we planned to carry out on financial statements, governance and internal control.
2. Our audit work for this year has been completed with no significant issues arising.
3. 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 23 June 2010.
4. 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.



# Financial Statements

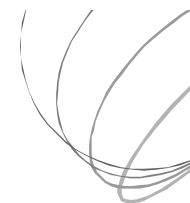
5. In this section we summarise key outcomes from our audit of the SPCB's financial statements for 2009/10 and the accounting issues faced. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available to it and its financial performance in the use of those resources.

## Our responsibilities

6. 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 year in question;
  - whether they were properly prepared in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
  - the consistency of the information which comprises the Management Commentary, the Statement of Internal Control and unaudited part of the Remuneration Report within the financial statements; and
  - the regularity of the expenditure and receipts.
7. 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, as Accountable Officer, to obtain assurances on systems of internal control;
  - assessing whether disclosures in the statement are consistent with our knowledge of the SPCB.

## Overall conclusion

8. As agreed the unaudited accounts were provided to us on 16 July 2010, supported by a comprehensive working paper package. We concluded our audit within the agreed timetable and provided our opinion to the Audit Committee on 22 September 2010 as timetabled.
9. The Auditor General for Scotland has given an unqualified opinion on the financial statements of the SPCB for 2009/10.



## Issues arising from the audit

10. 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 22 September 2010. We confirmed that there were no significant issues or concerns that required to be drawn to their attention in relation to the audit opinion. However, there are a number of qualitative issues that we wish to note for information.

## Pensions accounting

11. Following recent changes to the legislative arrangements for the MSP pension scheme, the SPCB has now accounted for pensions in line with International Accounting Standard 19 for its accounts. As a result the Operating Cost Statement now includes the actuarial estimate of the pension current service costs and net finance costs. This has resulted in an extra charge totalling £144 thousand (for 2008/09 there would have been an extra charge of £222 thousand). In addition, the Statement of Financial Position includes the net liability on the pension scheme totalling £9.9 million at 31 March 2010. For clarity, a matching portion of the General Reserve has been separately identified as a Pensions Reserve.

## Valuation of the Parliament building

12. The second full valuation of the Holyrood building took place as at 31 March 2010. Over the year there is a net downward movement in the valuation of £17 million from £323 million to £306 million. Of this £9 million relates to the annual depreciation charge, with £8 million being the net revaluation movement, which was charged to the revaluation reserve, in line with IFRS guidance. The new valuation of £306 million comprises £267 million for the main building, £31 million for fixed plant and £8 million for land. The main components of the net revaluation movement of £8 million were:
  - An upward movement of £28 million, reflecting the re-assessment of the remaining useful life of the building from 46 years of a 50 year life at 31 March 2009 to 49 years at 31 March 2010; and the resulting re-instatement of depreciation charged in previous years
  - A reduction of approximately £24 million, representing the finance cost element of the previous valuation, now removed following clarification of valuation guidance applicable to public sector accounts
  - An impairment charge in respect of fixed plant of £4 million
  - A downward movement in the valuation of land from £15 million to £8 million; and
  - A downward indexation movement on the main building of approximately £1 million.





13. The valuer's overall approach is consistent with that adopted for the initial 2005 valuation, being based on the actual recorded expenditure on the Parliament project abated for cost savings that could have been achieved.

## Regularity

14. 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 been able to address the requirements of the regularity assertion through a range of procedures, including written assurances from the Accountable Officer as to his view on adherence to enactments and guidance. No significant issues were identified for disclosure.

## International Financial Reporting Standards (IFRS)

15. UK Government departments and other public sector bodies prepared their accounts in accordance with International Financial Reporting Standards (IFRS) for the first time in financial year 2009/10. The transition arrangements to IFRS required bodies to prepare IFRS shadow accounts for 2008/09, including revised opening balances as at 1 April 2008.
16. During 2009/10 we were required to review the shadow accounts and report on them to the SPCB by 28 February 2010. The purpose of this exercise was to consider whether the shadow accounts had been properly prepared and report any matters that might prevent them forming a reliable basis for the first set of IFRS based accounts in 2009/10.
17. The shadow accounts and supporting documentation for the 2008/09 financial year were submitted by the SPCB for audit review by the deadline date of 30 November 2009. Our report to the Advisory Audit Board in February 2010 highlighted 2 areas for the 2009-10 financial year which the SPCB were already working on with us; accounting for capital expenditure and pensions accounting. These issues have been satisfactorily addressed in the 2009/10 accounts.



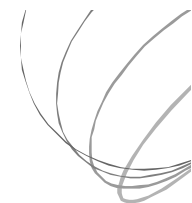
# Use of Resources

18. Sound management and use of resources (people, money and assets) are key to the delivery of strategic objectives. This section sets out a review of the SPCB's:
- financial position
  - financial sustainability.

## Financial Position

### Outturn 2009/10

19. The SPCB is required to work within its resource budget approved by Parliament. The SPCB's net outturn on capital and revenue was £98.1 million, £5.4 million below the overall limit of £103.5 million authorised by the Budget Act following the Spring revision. This comprised:
- an outturn on net administration costs of £95.6 million; and
  - £2.5 million capital expenditure.
20. Net administration costs for the financial year were £95.6 million, an increase of £1.8 million or 1.9% from 2008/09.
21. Members and staff costs decreased by £0.7 million (2.1%) to £34.4 million. A number of factors were responsible for this net decrease, including the costs of a number of staff taking Voluntary Early Severance/Early Retirement in the previous year offset by a 1.5% pay award for SPCB staff in 2009/10 from 1 August 2009.
22. Other administration costs have increased by £1.2 million or 2.9% compared to 2008-09. This net increase reflects changes across a range of expenditure heads. MSPs' reimbursable expenses increased £0.7 million (6.7%) to £11.2 million. Accommodation costs increased by £0.8 million (8.7%) to £10.0 million. The increase in MSPs' reimbursable expenses reflects the full year effect of the implementation of the new scheme with revised provisions and rates.
23. The final main category within administration costs relates to the funding of the Ombudsman and Commissioners. The outturn in this area was £7.7 million, an increase of £0.5 million (6.9%). This is mainly due to the increased funding provided to the Scottish Commission for Human Rights, as they established their full scale of operations.
24. Operating income was £0.7 million, a reduction of 50% from the previous year. However, income in 2008/09 was unusually high, as it included £0.6 million recovered from contractors relating to costs associated with the strut in the debating chamber which came loose in 2006.



25. The net assets of the SPCB decreased by £21.1 million over the year to £295.1 million. Non current assets (Property, Plant and Equipment and Intangibles) decreased by a net £17.0 million, reflecting the impact of the five yearly professional revaluation of the Holyrood building (£7.8 million) and depreciation of £11.7 million, offset by capital additions of £2.5 million. Current assets increased by £0.9 million, mainly reflecting an increase in cash held in the OPG account. Current liabilities reduced by £1.1 million; this is due to the payments made in 2009/10 against amounts provided for the Voluntary Early Severance/ Early Retirement scheme in the previous year, combined with the faster payment of invoices in 2009/10. Finally, the first time recognition of the funded MSPs pension scheme has resulted in the SPCB's accounts including a non current liability totalling £9.9 million (the balance at 31 March 2009 would have been a liability of £3.9 million). These changes in net assets were represented by a reduction in the general reserve of £7.4 million, a decrease in the pension reserve of £6.0 million and a decrease in the revaluation reserve of £7.9 million.

## Financial sustainability

26. During 2009/10 the Auditor General for Scotland issued two key reports relevant to the future levels of public funding in Scotland. *Scotland's Public Finances*, published in November 2009, contained an overview of the financial environment in Scotland and the pressures and challenges facing the public sector. The aim of this report was to help to inform the debate on the future of public finances in Scotland. *Improving public sector efficiency* was published in February 2010. The report recommended that to deal with reduced future funding and increase savings public bodies need to consider fresh approaches to improving efficiency and productivity. They must take a more fundamental approach to identifying priorities, improving the productivity of public services, and improving collaboration and joint working. We have written separately to the SPCB providing further detail on these reports. The SPCB has responded to the future budget pressures as outlined below.

## SPCB's 2010/11 budget

27. In November 2009 the Finance Committee of the Scottish Parliament considered the SPCB's budget bid for 2010-11 of £102.1 million, covering both capital and revenue. This represented a decrease of 1.4% over the 2009-10 budget at that time and has been approved as part of the Budget Act 2010. In giving evidence to the Finance Committee, the SPCB's Chief Executive highlighted that the staff complement in 2008/09 was 547; in 2009/10 it was 531 and is expected to be 528 in 2010-11. The Committee noted the explanations provided for the various changes in expenditure programmes in the budget bid, and some of the measures proposed by the SPCB to restrict future budget bids.
28. The Chief Executive also announced in April 2010 that the SPCB was committed to savings in line with the reduction in the Scottish Budget. The Future Resource Planning programme is expected to contribute to the savings, with further staff changes at all levels in the organisation. Further details of the approach to be adopted have been provided after the year end. We will follow up developments as part of the 2010/11 audit.



# Governance and Accountability

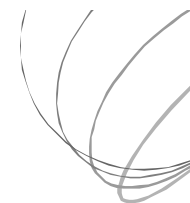
29. Effective structures and processes to govern decision-making and balanced reporting of performance to the public are fundamental features of governance and accountability. This section sets out our findings arising from a review of the SPCB's arrangements.

## Overview of arrangements

30. This year we reviewed:
- governance arrangements
  - key systems of internal control
  - internal audit
  - arrangements for the prevention and detection of fraud and irregularity, including the SPCB's Code of Conduct.
31. Our overall conclusion is that arrangements within the SPCB are sound and have operated satisfactorily throughout 2009/10.

## Governance arrangements

32. In 2006, following discussion with SPCB, we conducted a review and evaluation of the governance arrangements of the SPCB, based on the Good Governance Standard for Public Services (Langlands Commission). This approach was in line with SPCB's plans to develop their governance arrangements. Internal Audit followed up the review in 2008, including progress on our recommendations made in 2006, and 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.
33. Our interim audit for 2009/10 included a review on corporate governance developments. We monitored the progress on risk management and performance measures; and considered the role of efficiency and effectiveness reviews. We also followed up our ICT audit coverage. Overall, we obtained positive assurance in these aspects.
34. In addition, we carried out a high level review of the SPCB's guidance to staff relating to conflicts of interest, hospitality, travel and expenses. Our interim audit report included a number of recommendations to enhance the SPCB's guidance. Our review coincided with the SPCB's revision of their staff Code of Conduct, which we are pleased to note is now issued.



## **Risk management**

35. The SPCB's Strategic Leadership Team is responsible for identifying, managing and reviewing corporate risks and the effectiveness of actions to control these risks. The SPCB has put in place robust systems for the identification and management of risk with the adoption of an organisation wide risk register, corporate risk management policies and through issuing guidance to managers. The strategic risk register is reviewed quarterly by the Strategic Leadership Team and the register is subject to review and challenge by the SPCB and the Advisory Audit Board.

## **Systems of internal control**

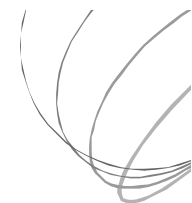
36. Key controls within systems should operate effectively and efficiently to accurately record financial transactions and prevent and detect fraud or error. This supports a robust internal control environment and the effective production of financial statements. As part of our interim audit we reviewed the high level controls in a number of the SPCB's systems that impact on the financial statements. This audit work covered a number of areas including payroll, capital accounting, cash and cash equivalents.
37. 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.

## **Statement on Internal Control**

38. The Statement on Internal Control provided by the SPCB's Principal Accounting Officer reflected the main findings from both external and internal audit work. This recorded management's responsibility for maintaining a sound system of internal control and set out the SPCB's approach to this.
39. 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.

## **MSPs' reimbursable expenses**

40. Sir Neil McIntosh's review of the scheme for the Reimbursement of Members' Expenses was published in December 2009. The report concluded that the current arrangements for the reimbursement of expenses are robust, being transparent, subject to tight controls and subject to internal and external audit.



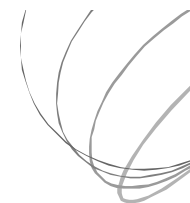
41. Sir Neil identified some additional measures which could enhance current audit arrangements, including the introduction of a programme of visits to outlying offices, which are not currently subject to direct audit. A further recommendation was that Audit Scotland should be invited to undertake a specific exercise scrutinising and assessing the arrangements for the reimbursement of MSPs' expenses at least once in each parliamentary session for assurance purposes.
42. We have liaised with the Head of Internal Audit on implementation of the recommendations of the McIntosh review. For 2009/10 we have placed reliance on internal audit's review of the system for reimbursing MSPs' claims for expenses, including the testing of transactions. We also completed tests of year end balances, a review of reconciliations between the SPCB's general ledger and the CASE system for reimbursing MSPs' expenses and a re-estimation of total expenses reimbursed. The outcome of our testing and that of internal audit was satisfactory.
43. A new Parliamentary session will begin in May 2011, following the Holyrood elections, at which time we will discuss with SPCB and internal audit the arrangements for Audit Scotland completing the external review of the arrangements in place for the reimbursement of MSPs' expenses.

### **Follow up of ICT audit, business continuity & information security**

44. From discussions with the Head of IT we have identified that SPCB continue to invest in developing a robust IT infrastructure. The IT strategy is supported by a three-year work plan that shows how the Business Information Technology (BIT) group will implement it.
45. A key objective was ensuring that the business of the Parliament can respond to IT service disruptions. This resilience has been provided by replicating key business systems to an offsite data centre. Now that continuity of these corporate systems has been provided, work towards providing increased levels of resilience in local offices is planned.
46. Information security is recognised as important. All SPS staff are required to sign the IT Acceptable Use Policy, a requirement that has now been extended to recently elected MSPs. Provision of appropriate training to all staff and MSPs to improve their knowledge of information security practice and responsibilities will remain a key feature of success in this area.

### **Compliance with information governance standards**

47. Internal audit completed a review of the SPCB's arrangements for Information Security Management. The review reported in June 2010 that the SPCB does not hold significant levels of personal information and conforms with the requirements of data protection and freedom of information legislation. However, the report recorded a number of matters for management attention, including identification of areas of risk and clarification of aspects of policy. We have placed reliance on the work completed by internal audit in this area and will continue to monitor the SPCB's progress in implementing their recommendations.

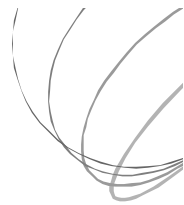


## Internal Audit

48. 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 2009/10 audit, we carried out an assessment of the internal audit function. We reported the findings of our review to the Advisory Audit Board in June 2010. 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.
49. We work closely with internal audit to make best use of audit resources. For the audit of the 2009/10 financial statements, we placed formal reliance on the work of internal audit in the following areas:
- Staff Expenses – corporate credit cards
  - Members Allowances and expenses
  - Scottish Futures Forum
  - Purchasing and payments – PECOS
50. Contributing to our evaluation of governance arrangements:
- Financial Management (Using Audit Scotland's Use of Resources Toolkit)
  - Business Continuity
  - Information Management and Security
  - Follow up of Agreed Audit Recommendations
  - Events Management
  - Procurement Project Reviews.
51. 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.

## Prevention and detection of fraud and irregularities

52. 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 SPCB has appropriate arrangements in place to prevent and detect fraud, inappropriate conduct and corruption, including policies and codes of conduct for staff and Members.



## Best Value and National Studies

53. As with the previous year, we issued a separate letter to SPCB on 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. For example, *The Role of Boards* report published in late September 2010 has been well received and although the circumstances of the SPCB and the Commissioner/ Ombudsman bodies are different from those of the public bodies considered in the report, there are some common principles that apply. We would be happy to liaise with SPCB to consider whether aspects of this review could be relevant to their circumstances.





# Looking Forward

54. The SPCB faces a number of challenges in 2010/11 which include:

- **Efficiencies and future funding. Future Resource Planning.** Scottish public bodies are facing serious financial challenges ahead – the biggest since devolution. To deal with reduced future funding and increase savings, fresh approaches to improving efficiency and productivity must be considered, taking a more fundamental approach to identifying priorities, improving the productivity, and improving collaboration and joint working. The SPCB recognises the need to find savings over the next three years to match the anticipated reduction (in real terms) to the Scottish Budget and is taking steps to prioritise spending, identify efficiencies and review future commitments to ensure delivery of key services and support to the Parliament. We note that the Future Resource Planning programme, which considers structures, systems and processes is being reviewed and the outcome of this is likely to be a major plank in achieving required expenditure reductions.
- **Scottish Parliamentary Commissions and Commissioners Act.** In parallel to the Public Service Reform Bill, Parliament has passed legislation updating the arrangements for the Commissioners and Ombudsman. SPCB is working with these officeholders to promote co-operation and gain the efficiencies anticipated going forward.
- **Accounting treatment of future expenditure on the Holyrood building.** The SPCB adopted an updated accounting policy for future capital works on the Holyrood building, reflecting the requirements of International Financial Reporting Standards (IFRS). Accounting for capital expenditure is one of the more complex areas of accounting, involving judgements, with the potential for change in accounting from that adopted under previous guidance. We will continue to liaise with SPCB finance staff to minimise any risks that could arise should there be any further clarification of interpretation of IFRS accounting in this area.
- **2011 elections** – Scottish Parliamentary elections will be held in May 2011 to elect members to the Scottish Parliament. SPCB is making the necessary preparations, including considering any accounting implications.