

Risk Management Authority

Annual report on the 2011/12 audit



Prepared for the Risk Management Authority and the Auditor General for Scotland
July 2012

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Key messages

2011/12

We have given an unqualified opinion on the financial statements of the Risk Management Authority ("the Authority") for 2011/12. 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.

The Authority achieved a break even position in 2011/12. Expenditure was reported at £1.082 million with income of £0.038 million giving net expenditure for the year of £1.044 million. This was funded by initial grant in aid funding of £1 million supplemented by an additional £0.044 million received specifically to fund an additional staff post.

Outlook

2011/12 saw a general weakening in the recovery from the 2008 global financial crisis, with growth in the Scottish economy remaining very muted and Scotland's public sector under continued financial pressure. There will be limited increases in funding, increasing cost pressures and demanding savings targets.

The Authority faces budget reductions over the coming three years, while the number of offenders with orders for lifelong restriction (OLRs) and the number of associated risk management plans (RMPs) requiring to be reviewed by the Authority will continue to increase. It may prove challenging for the Authority to continue to fulfil its full range of statutory obligations against a backdrop of reducing resources.

Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of the Risk Management Authority (RMA, "the Authority"). The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
2. This report focuses on the financial statements and any significant findings from our wider review of the Authority. Other reports which we have issued in relation to the 2011/12 RMA audit are listed at Appendix A.
3. An action plan setting out the high level risks we have identified from the audit is included at Appendix B. Management have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the board understands its risks and has arrangements in place to manage these risks. The board should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to the board and the Auditor General Controller of Audit and should form a key part of discussions with audit committees, either prior to or as soon as possible after the formal completion of the audit of the financial statements. Reports should be available to the Scottish Parliament, other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website after consideration by the board and after the financial statements have been laid before parliament.
6. The management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
 - the regularity of the expenditure and income.
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the management commentary, annual governance statement and remuneration report. This section summarises the results of our audit on the financial statements.

Audit opinion

10. We have issued an unqualified audit opinion that the 2011/12 financial statements give a true and fair view of the Authority's affairs including its net expenditure for the year.

Annual governance statement and remuneration report

11. In our opinion, the audited part of the remuneration report has been properly prepared and is consistent with the financial statements.
12. We also confirm that we have no issues to report to you on the annual governance statement and its compliance with Scottish Government guidance.

Accounting issues

13. The Authority is required to prepare its financial statements for 2011/12 in accordance with the 2011/12 Government Financial Reporting Manual (FReM). We confirm that the financial statements have been prepared properly in accordance with the 2011/12 FReM.

Accounts submission

14. The initial draft financial statements and working papers were made available for audit on 16 May 2012 in accordance with a pre-agreed timetable. Matters arising from the audit were discussed on a regular basis, and a final clearance meeting was held on 8 June 2012 with the Director of Business Performance.

Presentational and monetary anomalies found in the unaudited accounts

15. Various presentational amendments were required to the initial draft of the financial statements received by us. These were largely updated for the final version of the financial statements. Presentational issues carried forward to 2012/13 are included in our International Standard on Auditing (ISA) 260 report which was presented to the Authority's Audit Committee on 18 June 2012.
16. A minor monetary anomaly relating to fixed assets cost and depreciation balances remained unresolved at the conclusion of the audit. Management have agreed to resolve the anomaly in 2012/13.

Refer action point 1

17. The Authority has a software licence asset in its Statement of Financial Position (SoFP) comprising a case management IT system developed by the Scottish Government IT department. The RMA Director of Business Performance has advised us that the asset was recognised in the SoFP in financial year 2008/09.
18. The asset is valued in the SoFP at £106,000 and is fully depreciated in accordance with the Authority's depreciation policies but is still in development and has not yet been delivered in fully operational form. Management have agreed to consider the most appropriate accounting treatment of this asset at the point at which it is finally delivered (expected in August 2012).
19. We identified historical balances with the following classifications in the year-end ledger report:
 - Revaluation Reserve
 - General fund Opening Balance
 - Closing Account

No detailed explanation of the origin of these balances or of the reason for their inclusion in the ledger in this format was provided by the Authority or by the Scottish Government's accountancy services section.

20. We were able to ascertain that each of the balances was included properly in the year end general reserve balance shown in the accounts. However, the classification of the balances per the ledger did not reflect the Authority's accounts. Management have agreed to liaise with the Scottish Government's accountancy services section to update the ledger structure for 2012/13.

Refer action point 2

21. We did not identify any other monetary or presentational anomalies through our audit work.

Outlook

22. No significant changes are currently expected to the reporting framework applicable to the Authority (i.e. the FReM) for next year (2012/13).

Audit appointment

23. Audit appointments are made by the Auditor General for Scotland, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 was the last year of the previous five year audit appointment. The procurement process for the following five years starting in 2011/12 was completed in May 2011 and determined that for the five years from 2011/12 the auditor for the Authority will be Audit Scotland. We met with the outgoing auditors (KPMG) as part of our audit planning process.
24. We look forward to continuing to develop the good working relationship established in 2011/12 with the Authority's staff and members of the board and audit committee.

Financial position

25. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
26. Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
27. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

28. The Authority's net expenditure for 2011/12 was £1,043,597. This was within the agreed budget. The most significant elements of expenditure were staff costs of £698,000 (67% of net expenditure) and research and consultancy costs of £157,000 (15% of net expenditure).
29. The Authority generated income of £38,000 in 2011/12.

Budgetary control

30. We found arrangements for budget setting and monitoring in place at the Authority to be sound, with management exercising close control over expenditure and reporting financial results quarterly to the board.

Financial position

31. The Authority's net asset position at 2011/12 year end was £100,000. This was unchanged from the prior year balance. We did not identify any concerns over the on-going sustainability of the Authority's financial position.

Outlook

2012/13 budget

32. Funding for 2012/13 allocated to the Authority by the Scottish Government totals £934,000. This represents a 6.6% reduction on the available 2011/12 budget.
33. The Authority expects to generate £29,000 of income during 2012/13 and so must reduce expenditure by £75,000 (7.2%) in order to ensure that expenditure remains within budgetary

limits. The Authority expects to achieve these savings through reductions in research and consultancy expenditure.

34. Orders for lifelong restriction (OLRs) are long term by their nature and are being imposed on an ongoing basis. The number of offenders with OLRs and the associated number of risk management plans requiring to be reviewed by the Authority will continue to increase until such time as a natural equilibrium is established. This is likely to take a considerable number of years. Ensuring expenditure remains within budgetary limits is likely to prove challenging under these circumstances.

Refer action point 3

Governance and accountability

35. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
36. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
37. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
38. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

39. The strategic direction and performance of the Authority is governed by the board. One new member joined the board during 2011/12, with one member leaving their post shortly thereafter. Overall board membership numbers therefore remained static. Internal scrutiny is provided by the Audit Committee.
40. The convener of the board throughout 2010/11 and 2011/12 was Mr Peter Johnston. The Authority's chief executive and accountable officer is Ms Yvonne Gailey, who has been in post since 2009. The Authority has thereby benefited from continuity of leadership in recent years.
41. A statutory duty of the Authority is the accreditation of appropriate individuals to prepare risk assessment reports. These reports inform the judgement of the High Court in determining the imposition of orders for lifelong restriction (OLRs) on particular offenders. There is a risk that a successful legal challenge by an offender of a report prepared by an RMA accredited assessor could lead to subsequent legal challenge of the Authority's accreditation processes.

42. We have been advised by management that the Authority updates accreditation processes and procedures on an ongoing basis, ensuring that they are sufficiently robust to withstand any potential legal challenge. The Authority's audit committee has additionally asked that this area be reviewed by internal audit in 2012/13.

Refer action point 4

Internal control

43. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
44. Many of the Authority's processes rely on systems hosted centrally by the Scottish Government (SG). We review the controls in place within these systems centrally. This approach ensures we are delivering an efficient co-ordinated audit that avoids unnecessary duplication and expense. Our review did not identify any significant control weaknesses in the SG systems utilised by the Authority in 2011/12.
45. As part of our risk assessment and planning process we assessed the Scottish Government Internal Audit Division, the Authority's internal auditors, and concluded that they operate in accordance with the Government Internal Audit Manual. We were therefore able to rely on their work to obtain further assurances over the effectiveness of the systems of internal control in place at the Authority.
46. Following the completion of their annual review, internal audit concluded that substantial assurance could be taken for the Authority's key systems.
47. In addition, a review of the project management of the Case Management System Project concluded that reasonable assurance could be taken for this area, with no significant control weaknesses reported.
48. We have concluded that satisfactory governance arrangements are in place at the Authority.

Prevention and detection of fraud and irregularities

49. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
50. There were no instances of fraud or corruption reported by the Authority in 2011/12.
51. The Authority has appropriate arrangements in place (based on Scottish Government guidance) to prevent and detect instances of fraud and corruption including detailed policies which have recently been reviewed and updated.

Standards of conduct and arrangements for the prevention/ detection of bribery and corruption

- 52.** Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions.
- 53.** The Authority has recently updated its codes of conduct for staff and members. We have concluded that the arrangements are satisfactory and we are not aware of any specific issues that we need to identify in this report.
- 54.** In addition, the Authority has in conjunction with its Scottish Government sponsor department updated its Management Statement and Financial Memorandum.

Best Value, use of resources and performance

- 55. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
- 56. This section provides a commentary on the Best Value/ performance management arrangements within the Authority.

Management arrangements

Best Value

- 57. In March 2011, the Scottish Government issued new guidance for accountable officers on Best Value in Public Services. The new guidance, in essence, required public bodies to take a systematic approach to self-evaluation and continuous improvement.
- 58. The Authority has not developed a formal response or performed a best value self-assessment subsequent to the issuing of the guidance.

Refer action point 5

Performance management

- 59. The Authority assesses its performance against five strategic aims set out within its annual Business Plan. Progress is measured with reference to various performance targets associated with each of the aims. The Authority's aims and targets are detailed in the 2010-13 corporate plan and annual business plan, with progress reported in the Authority's annual report.
- 60. The performance targets against which the Authority measure internal performance are all qualitative in nature. Management are considering the identification and development of potential quantitative performance measures on an on-going basis.

Refer action point 6

- 61. Performance against targets is discussed quarterly by the Authority's board.

Community/user engagement

- 62. The Authority has advised that engagement with stakeholders is achieved through on-going consultation on specific areas as appropriate.

Overview of performance in 2011/12

Performance measurement outcomes reported by the Authority

63. The Authority's 2011/12 annual report shows that all but one performance targets identified for the year have been met.
64. The target reported as not having been met:
 - "Accreditations: We will ensure that evidence of a high standard is provided before persons (Assessors) and manners (methods) are accredited by the RMA".

This target has been carried forward to 2012/13.

Appendix A: audit reports

External audit reports and audit opinions issued for 2011/12

| Title of report or opinion | Date of issue | Date presented to Audit Committee |
|--|----------------|-----------------------------------|
| Annual Audit Plan | 9 January 2012 | 20 February 2011 |
| Report on financial statements to those charged with governance (ISA 260 report) | 13 June 2012 | 18 June 2011 |
| Audit opinion on the 2011/12 financial statements | 16 July 2012 | 16 July 2012 |

Appendix B: action plan

Key Risk Areas and Planned Management Action

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|---|--|--|---------------|
| 1 | 16 | <p>Monetary anomaly</p> <p>A minor monetary anomaly relating to fixed assets cost and depreciation balances remained unresolved at the conclusion of the audit.</p> | Management have agreed to resolve this difference in 2012/13. | Chief Executive/ Director of Business Performance | 31 March 2013 |
| 2 | 20 | <p>Ledger structure</p> <p>We identified historical balances with the following classifications in the year-end financial ledger report:</p> <ul style="list-style-type: none"> • Revaluation Reserve • General fund Opening Balance • Closing Account <p>No detailed explanation of the origin of these balances or of the reason for their inclusion in the ledger in this format was available.</p> <p>Risk: Assurance that the balances shown in the financial statements are included and accounted for correctly would be increased by ensuring that the financial ledger is consistent with the accounts.</p> | Management will liaise with finance staff in the Scottish Government to ensure that the Authority's ledger is brought up to date during 2012/13. | Chief Executive/ Director of Business Performance | 31 March 2013 |

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|---|--|--|-------------------------|
| 3 | 34 | <p>Budget monitoring and efficiency savings</p> <p>Budget cuts and an increasing workload, particularly associated with increasing numbers of risk management plan reviews, mean that the Authority will need to make ongoing efficiency savings in order to ensure that expenditure remains within budgetary limits in both the coming year and in the longer term.</p> | The issue of increasing workload and the impact of reduced funding is detailed in RMA's corporate risk register. The RMA will raise this matter with Sponsor Department. | Board/Chief Executive/ Director of Business Performance | 31 March 2013 / ongoing |
| 4 | 42 | <p>Legal challenge of Authority processes</p> <p>Successful legal challenge of a risk assessment report could lead to subsequent legal challenge of the Authority's accreditation processes.</p> <p>The board should ensure that all possible steps are taken to ensure that the Authority's processes represent best practice and are sufficiently robust to withstand legal challenge.</p> | The RMA Audit Committee will incorporate the accreditation process as part of the Internal Audit Annual Plan. | Board/Chief Executive | Ongoing |
| 5 | 58 | <p>Best Value assessment</p> <p>The Authority has not thus far taken formal action in response to best value guidance issued by Scottish Ministers in March 2011. Management should consider performing a self-assessment against the guidance during 2012/13.</p> | The RMA plans to conduct a Best Value self-assessment during 2012/13. | Board/Chief Executive/ Director of Business Performance | 31 March 2013 |

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|--|--|--|----------------------|
| 6 | 60 | <p>Performance indicators</p> <p>The indicators against which the Authority currently measures its performance are all qualitative in nature. Management should consider identifying and developing quantitative performance measures to allow a more definitive assessment of the Authority's performance.</p> | <p>The RMA will consider the development of quantitative Key Performance Indicators for the forthcoming Business Plan 2013-16.</p> | <p>Board/Chief Executive/ Director of Business Performance</p> | <p>31 March 2013</p> |