

Scottish Parliamentary Corporate Body

Annual report on the 2011/12 audit



Prepared for the Scottish Parliamentary Corporate Body and the Auditor General for Scotland
November 2012

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key messages

2011/12

The financial challenges facing the Scottish public sector are well documented, with public bodies facing deep and prolonged cuts in funding. In 2011/12 we assessed the key strategic and financial risks faced by the Scottish Parliamentary Corporate Body (SPCB). We audited the financial statements and we also reviewed the use of resources and 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 2011/12. We have also concluded that in all material respects, the expenditure and income shown in the financial statements were incurred or applied in accordance with applicable enactments, and relevant guidance, issued by Scottish Ministers.

Financial position and use of resources

The SPCB has a net underspend of £2.7 million for 2011/12, of which £1.8 million was attributable to cash related expenditure. The SPCB acknowledges that delivering future savings whilst containing expenditure within reducing budgets will be extremely challenging going forward.

Governance and accountability

In 2011/12, the SPCB had satisfactory corporate governance arrangements in place. We examined the organisation's key financial systems underpinning the organisation's control environment and concluded that they operated sufficiently well for us to place reliance on them.

Outlook

The SPCB is now moving into the second year of its four year savings plan (the Future Resource Plan) and 2012/13 is likely to be a challenging year. A capital project to construct a new External Security Facility will require to be carefully managed to ensure that overall expenditure remains in line with the Future Resource Plan.

The capacity of the organisation will need to be kept under review as the savings programme continues and resources are directed to supporting the arrangements for the referendum on Scotland's constitutional future.

Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of the Scottish Parliamentary Corporate Body (SPCB). 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. We issued a number of reports in the course of the year in which we made some minor recommendations for improvements (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of the SPCB.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. SPCB officers 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 SPCB understands its risks and has arrangements in place to manage these risks. The Accountable Officer, and the members of the Corporate Body, 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 SPCB and the Auditor General and should form a key part of discussions with the Advisory Audit Board, as soon as possible after the formal completion of the audit of the financial statements. Reports should be made available to 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 members of the Corporate Body and the Advisory Audit Board.
6. The management of the SPCB 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 our attention during our 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.
7. The assistance and co-operation given to us during our audit is gratefully acknowledged.

Financial statements

8. 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.
9. We 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.
10. We review and report on, as appropriate, other information published with the financial statements, including the management commentary, governance statement and the remuneration report. This section summarises the results of our audit on the financial statements.

Audit opinions

11. The Auditor General for Scotland has given an unqualified opinion that the financial statements of the SPCB for 2011/12 give a true and fair view of the state of the body's affairs and its net operating cost for the year.
12. The SPCB follows the 2011/12 Government Financial Reporting Manual (the FReM) and we confirmed that the financial statements have been properly prepared in accordance with the FReM. We also confirmed that relevant parts of the remuneration report had been properly prepared and that information given in the management commentary was consistent with the financial statements.
13. We also reviewed the governance statement and concluded that it complied with guidance from Scottish Ministers.

Regularity

14. We confirmed that the expenditure and income in the financial statements was in accordance with applicable legislation and Ministerial guidance, the Budget Act for 2011/12 and legislation governing sums paid out of the Scottish Consolidated Fund.

Accounting issues

Accounts submission

15. The financial statements were submitted for audit on 16 July, in accordance with an agreed timetable. The draft financial statements were supported by high quality working papers and

schedules, which contributed to an efficient audit process. The audit fieldwork was completed by 7 September and matters arising were discussed on a regular basis with SPCB staff, including the Financial Controller and the Head of Financial Resources.

16. The draft financial statements submitted to the AAB for consideration on 19 September did not have any unadjusted errors and this was reflected in our Report to those charged with governance submitted at the same meeting.
17. A small number of presentational changes were required to the annual report and accounts as a result of our review of the disclosures required by the Government Financial Reporting Manual (FRoM) and the audited financial statements have been adjusted to reflect this. Overall, there were very few issues arising from our audit of the accounts and the draft financial statements were of a high quality.

Prior year adjustments

18. All central government bodies have been affected by the new accounting requirement in the FRoM for grants and donated assets which should now be recognised immediately, unless there is a condition that the recipient has not satisfied that would lead to grant repayment. Most grants should now be recognised as income and the government grant reserve and donated asset reserve no longer exist.
19. As disclosed in the statement of accounting policies, the donated asset reserve of £0.3 million has been removed from the financial statements through an adjustment to prior year figures. This adjustment has been treated as a change to accounting policy, but has no overall impact on net assets. We were satisfied that the adjustment had been accounted for appropriately.

Reported performance against cash limit

20. The Scottish Parliament sets an annual limit on the amount which the SPCB may draw down from the Scottish Consolidated Fund (SCF) as part of the annual Budget Act.
21. In previous years the SPCB's financial statements (Schedule 1 Summary of Resource Outturn) disclosed the net cash requirement during the year - that is the net amount of cash expenditure during the year. However, the format previously adopted did not make clear the distinction between this and cash drawn down, which is the relevant amount for comparison with the authorised cash limit. The presentation of the Schedule 1 was amended in 2011/12 to make this clearer and renamed Statement of Parliamentary Supply.

Outlook

22. There are no significant changes to the 2012/13 FRoM that are expected to have an impact on the SPCB's annual financial accounts.

Financial position

23. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
24. We 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.
25. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

Annual outturn

26. The SPCB is required to work within its resource budget approved by the Scottish Parliament. The annual budget approved by the Scottish Parliament was £88.2 million for 2011/12 (a net revenue budget of £86.9 million and a capital budget of £1.3 million). The SPCB reported an outturn of £85.5 million (net operating cost of £84.2 million and capital expenditure of £1.3 million) that was £2.7 million within budget.
27. The funding drawn down of £74.8 million was within the cash limit authorised by the Budget Act of £75.5 million.

Exhibit 1: SPCB performance against budget (post Spring Budget Revision)

Description	2011/12 Budget £ million	2011/12 Outturn £ million	2011/12 Difference £ million
Revenue (net)	74.1	72.3	1.8
Capital	1.3	1.3	0
Total	75.4	73.6	1.8
Non cash items	12.8	11.9	0.9
Total	88.2	85.5	2.7

Source: SPCB authorised budget 2011/12 and audited financial statements 2011/12

28. Exhibit 1 shows that part of the variance between outturn and budget related to non cash items totalling £0.9 million; depreciation £0.5 million and £0.4 million for the MSPs pension

fund finance cost. The remaining budget variance is £1.8 million, of which £0.3 million relates to an underspend for Commissioners and Officeholders; £1 million is due to an underspend on MSPs costs and the remainder is a £0.5 million underspend on parliamentary service costs.

29. Excluding non cash items, the agreed budget for 2011/12 was £75.4 million. Delivering this budget would have meant that the SPCB had achieved its target savings as set out in the four year Future Resource Plan. We provide further comment on the Future Resource Plan at paragraph 36 below.

Budgetary control

30. We have previously reviewed the SPCB's budget setting and monitoring arrangements, which were found to be satisfactory. Our follow up review confirmed that these arrangements continued to operate satisfactorily, including senior management receiving budget monitoring reports (management accounts) on a regular basis with adequate explanation of key variances against budget.
31. Our interim audit report highlighted routine re-forecasting exercises were undertaken in September and November 2011 as well as a high level re-forecast in May 2011. The reviews identified a further £0.8 million of savings some of which was used in the External Security Facility design, carbon management plan and external building maintenance work. The higher than expected costs for redundancy payments for MSP support staff were offset against a lower spend of members expenses while new office arrangements were established and support staff employed.

Financial position

32. The statement of financial position shows net assets of £296.3 million at 31 March 2012 (£308.7 million at 31 March 2011). Exhibit 2 shows how the £12.4 million reduction in net assets in the statement of financial position is represented in the movement on reserves.

Exhibit 2: SPCB reserves at 31 March

Description	31 March 2012 £ million	31 March 2011 £ million	2011/12 Reserves Movement £ million
General Fund	264.2	271.4	(7.2)
Revaluation Reserve	37.5	40.4	(2.9)
Pension Reserve	(5.4)	(3.1)	(2.3)
Total Reserves	296.3	308.7	(12.4)

Source: 2011/12 audited financial statements

33. The reduction in net assets reflects an increase in the actuarial assessment of pension liabilities for the Members Pension Fund and a downward revaluation of non-current assets.

The remaining movement reflects the fact that the cash funding required from the Scottish Consolidated Fund was less than the accounting cost of operations (excluding pensions).

Capital investment and performance

34. Capital expenditure during the year was well managed. The SPCB's outturn on capital expenditure was very close to its capital budget of £1.3 million and related to twelve main projects, the most significant being the Information Technology provision post election; a programme to replace servers; and a refresh of multi function printers and copiers.

Financial planning to support priority setting and cost reductions

35. The UK Comprehensive Spending Review (CSR) was published on 20 October 2010 and presented UK budgets for the period 2011-2015. The figures for Scotland included in the CSR showed a real terms fall in the departmental expenditure limit (DEL) of 11.3% between the expenditure budgeted for 2010/11 and that budgeted for 2014/15 (compared to the earlier internal estimates of a 15% reduction). DEL forms the majority of the budget and is made up of the planned operating and capital expenditure.
36. The SPCB has responded to the funding pressures by developing and implementing a Future Resource Plan, to deliver savings in line with any percentage reduction in the amount expected to be available to the Scottish Consolidated Fund. This is equivalent to a real terms reduction of 12.7% (based on March 2012 deflators) to 2014/15 against a 2010/11 baseline.
37. A change management programme was initiated in January 2011 to facilitate delivery of the agreed savings. In the period to 31 March 2012, budget savings, in real terms of £6.1 million, have been made. The SPCB has a further £4.0 million real terms savings to make in its budget by 2014/15. As part of the change management programme the SPCB has recently completed a programme of office reviews which have resulted in each office producing a local savings plan. The SPCB has issued an interim report on the outcome of the Change Management Programme to the Leadership Group in May 2012. There will be a post implementation review of the Change Management Programme in 2013.

MSP support staff redundancies

38. One of the key risks to delivery of the targeted savings for 2011/12 was the uncertainty over what the number, and quantum, of redundancy payments due to MSP support staff would be as a result of the outcome of the May 2011 election. The 2011/12 budget included £0.8 million to meet the anticipated office winding up costs for MSPs standing down, or not returned, at the May 2011 election. Winding up costs were expected to cover redundancy payments for MSP support staff.
39. The election resulted in 48 new MSPs and 181 MSP support staff were made redundant. Related payments totalled around £1.5 million. We confirmed that the redundancy payments made were in accordance with scheme rules. In addition, internal audit undertook a review of the redundancy payments to provide assurance to the SPCB that payments had been correctly calculated in relation to reckonable service.

40. The expenses scheme provides that the SPCB may limit any application for reimbursement of the redundancy payment to such amount as it considers reasonable. In November 2010, the SPCB's Head of HR wrote to the Presiding Officer to advise him of the Corporate Body's decision regarding redundancy payments for Members' staff, in relation to the May 2011 election. While this arrangement provided helpful clarity in relation to amounts able to be claimed following the recent election, no longer term policy has been established in relation to this issue. Such a policy would provide a firm basis for assessing any future claims, helping to ensure consistency of treatment between claims and through time.

Refer Action Plan No. 1

41. Our audit testing of members' expenses identified a number of instances where signed contracts for newly appointed MSP support staff had not yet been forwarded to the SPCB as required. These contracts outline the main conditions of employment in operation from the start of the employment and provide important evidence to support the SPCB's consideration of claims for reimbursement within the expenses scheme.

Outlook

2012/13 budget

42. In November 2011 the Finance Committee of the Scottish Parliament considered and recommended the approval of the SPCB's budget bid for 2012/13 of £86.4 million. The budget bid comprised a net revenue budget of £72.3 million, a capital budget of £1.5 million and £12.6 million for capital charges (depreciation).
43. The 2012/13 budget reflects the savings targets contained in the Future Resource Plan and overall represents a 7.7% real term reduction from the 2010/11 baseline. The SPCB updated its Future Resource Plan in November 2010, planning to reduce DEL expenditure, in real terms, from £79.7 million in 2010/11 to £69.6 million in 2014/15 based on March 2012 deflators. Figures in cash and real terms are summarised in Exhibit 3 below. This shows that the most significant part of the planned reduction has taken place over the first 2 years of the Future Resource Plan.
44. A new External Security Facility (ESF) is to be built at Holyrood at an estimated cost of £6.5 million including VAT, fees and fit out. Construction began in October 2012, with the new facility due to be operational in 2013. The funding will be spread over the 2012/13 and 2013/14 financial years.
45. The 2012/13 budget included a capital allocation of £1.5 million for the ESF. The SPCB has indicated that the remaining ESF cost will be met from within the Parliament's existing resources by postponing other projects and spreading the funding across two financial years. SPCB plans that around 60% of the project will be completed in 2012/13. Careful management will be required to ensure that costs are managed within financial plans. Any significant slippage in progress will increase pressure on 2013/14 budget.

Refer Action Plan No. 2

Exhibit 3: Future Resource Plan

	2010/11 Baseline £ million	2011/12 Budget Bid £ million	2012/13 Projected £ million	2013/14 Projected £ million	2014/15 Projected £ million
Revenue	76.7	74.0	72.3	73.6	75.3
Capital	3.0	1.3	1.5	1.5	1.5
Total (cash)	79.7	75.3	73.8	75.1	76.8
Total (real term)*	79.7	73.6	70.2	69.8	69.6

* based on March 2012 GDP deflators.

Source: SPCB Future Resource Plan

46. We will continue to monitor developments in this area, going forward, including the delivery of actual savings against the Future Resource Plan.

Governance and accountability

47. 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.
48. 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.
49. Consistent with the wider scope of public audit, we 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.
50. In this part of the report we comment on key areas of governance.

Corporate governance

Overall effectiveness

51. We found that, overall, the SPCB's corporate governance arrangements operated effectively during 2011/12. We identified a number of minor issues which we will report on separately to management. More significant issues relating to risk management and performance reporting are commented on below.

Processes and committees

52. The Leadership Group (which replaced the Strategic Leadership Team and Operational Management Group) is the SPCB's key management forum. The Corporate Body is responsible for setting the overall strategic direction and the Leadership Group is responsible for ensuring that the aims and objectives set by the members of the Corporate Body are achieved. The role of the Leadership Group includes monitoring performance against agreed objectives and ensuring that the statutory requirements for the use of public funds are complied with.
53. The SPCB has put in place systems for the identification and management of risk with the adoption of an organisation wide risk register. Following a review of the SPCB's Central Corporate Support Functions, the Head of Internal Audit was assigned responsibility for facilitating the development of risk management arrangements. Our interim audit report

highlighted a number of initiatives around risk management arrangements which were to lead to a refreshed corporate risk register, due to be published/implemented by 1 April 2012.

54. We considered progress as part of our final audit and found that the October 2011 version (iteration) of the risk register was still in use. All SPCB office areas were required to complete office plans, as part of the Organisational Performance Framework (OPF), which recorded how offices would contribute to strategic objectives; what the risks were and how these risks would be mitigated. OPF risks will link to the corporate risk register however progress in relation to updating and agreeing the corporate risk register had been slow.
55. We have previously reported that the SPCB has recognised the need to enhance performance reporting. We found that high level performance indicators derived from the strategic plan, and savings targets set out in the Future Resource Plan, have been established. Further development is on-going.
56. We have identified some delays in developing risk and performance management. SPCB indicated that progress is now being made in these areas. We also note that despite a reduction in the number of staff, accrued annual leave and flexitime was in line with the previous year and some month end payroll reconciliations were not completed on a timeous basis. While none of these issues are indicative of serious concerns currently, SPCB will wish to monitor the impact of organisational changes on its overall capacity.

Refer Action Plan No. 3

Internal control

57. While we concentrate on significant systems and key controls in support of the opinion on the financial statements, our wider responsibilities require us to consider the financial systems and controls of audited bodies as a whole. The extent of this work is informed by our assessment of risk and the activities of internal audit.
58. Our audit approach includes a review of the high level controls operating within SPCB's key financial systems. Our interim audit report concluded that that key controls were operating satisfactorily and that the SPCB has adequate systems of internal control in place however we identified a small number of minor control weaknesses where improvements could be made to existing arrangements.
59. A key element of our work on internal controls is the extent of reliance that we can place on the work of internal audit in terms of ISA610 (Considering the Work of Internal Audit). Our interim audit report confirmed that we had carried out a review of the internal audit function and we had concluded that the work of the SPCB's internal audit service is carried out in accordance with Government Internal Audit Standards. As a result of the review we also made some minor recommendations for improvement, which were accepted by the Head of Internal Audit.
60. The Head of Internal Audit concluded in his annual report that a strong level of assurance can be taken from the areas reviewed, subject to the implementation of agreed recommendations.

Governance statement

61. In 2011/12, the SPCB included a governance statement in its annual accounts for the first time. In accordance with Scottish Government guidance, this included description and assessment of the essential components of corporate governance.
62. We found that the governance statement complied with the requirements set out in guidance. Future governance statements could be strengthened by providing a fuller commentary on the risks the SPCB faces and the actions taken to mitigate these.

Prevention and detection of fraud and irregularities

63. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
64. The SPCB has appropriate arrangements in place (based on the Scottish Public Finance Manual) to help prevent and detect instances of fraud and irregularity including detailed policies in the Code of Conduct and the SPCB Staff Handbook. There were no instances of fraud or irregularity reported by the SPCB in 2011/12.

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

65. 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. We consider whether bodies have adequate arrangements in place.
66. The arrangements in the SPCB are generally satisfactory. All SPCB staff, including the Leadership Group, are required to declare any interests, as set out in the Code of Conduct.

Outlook

67. Work is continuing on the development of the Organisational Performance Framework and the completion of individual office plans. This will support the further development of key elements of the governance of the organisation, including risk and performance management.

McIntosh Report

68. Sir Neil McIntosh's review of the scheme for the Reimbursement of Members' Expenses was published in December 2009. This identified some additional measures which could enhance public confidence in audit arrangements, including the introduction of a programme of visits to outlying offices. A further recommendation was that the external auditor 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; with the detailed implementation of these arrangements to be agreed between the Accountable Officer and the auditors.

69. A new parliamentary session began in May 2011. In addition, a new system for processing MSPs claims for the reimbursement of expenses (CORE) was implemented in March 2012. Audit Scotland will liaise with SPCB on the implementation of the McIntosh recommendations in 2012/13 and how this will be resourced.

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 Advisory Audit Board
Annual audit plan	9 February 2012	28 March 2012
Review of the adequacy of internal audit	23 February 2012	28 March 2012
Interim report	30 May 2012	19 September 2012
Report on financial statements to those charged with governance	12 September 2012	19 September 2012
Audit opinion on the 2011/12 financial statements	12 September 2012	19 September 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	40	<p>Policy on reimbursement of support staff redundancies</p> <p>There is currently no longer term policy setting out what redundancy arrangements SPCB would consider to be reasonable to reimburse under the members' expenses scheme. Such a policy would provide a firm basis for assessing future claims, helping to ensure consistency of treatment through time.</p>	Officials will examine the terms of the members' expenses scheme and raise the issue with the Corporate Body.	Human Resources Office	31 March 2013
2	45	<p>Financial management of capital project</p> <p>Careful management will be required to ensure that the costs of the External Security Facility are managed within financial plans. Any significant slippage in progress at the end of the current year will increase pressure on 2013/14 budgets.</p>	Close monitoring and reporting is on-going over the course of the project. Regular updates are provided to the SPCB by the SRO.	Ken Hughes	On-going through project
3	56	<p>Governance arrangements</p> <p>There have been continuing delays in the development of arrangements for risk management and performance reporting.</p>	The first Organisational Performance Framework has been prepared under the new reporting arrangements and will be presented to SPCB in late November. The Strategic Risk Register	Derek Croll/Andy Munro	Quarter 3 2011/12

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
			was considered by the Leadership Group on 19th November 2012.		