

# Risk Management Authority

## Annual report on the 2012/13 audit



Prepared for the Risk Management Authority and the Auditor General for Scotland  
July 2013

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# Key messages

## 2012/13

We have given an unqualified opinion on the financial statements of the Risk Management Authority ("the Authority") for 2012/13. 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.

During 2012/13 the Authority reported a surplus of £69,000 with expenditure for the period of £0.939 million against the annual grant-in-aid allocation of £1.008m. This increased the Authority's general fund balance to £169,000 with £80,000 of the balance being earmarked to fund the future costs associated with the Enhancing Effective Practice in Community Supervision project (EPICS).

## Outlook

2012/13 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 annual implementation reports (AIRs) requiring to be reviewed by the Authority will continue to increase. This represents a major challenge for the Authority to continue to fulfil its statutory obligations against a backdrop of reducing resources.

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# Introduction

1. This report is the summary of our findings arising from the 2012/13 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 Authority's 2012/13 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 for Scotland 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 Authority 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 2012/13 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 2012/13 in accordance with the 2012/13 Government Financial Reporting Manual (FReM). We confirm that the financial statements have been prepared properly in accordance with the 2012/13 FReM.

## Accounts submission

14. The initial draft financial statements and working papers were made available for audit on 20 May 2013 in accordance with the agreed timetable. Matters arising from the audit were discussed on a regular basis, and a final clearance meeting was held on 23 May 2013 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 and all significant issues were addressed in the final signed version.
16. A number of monetary errors were also identified during the audit but these were all corrected in the final version of the financial statements and as a result there were no unadjusted monetary errors.
17. One of the monetary errors identified during the audit related to members pay and was attributable to a Logica payroll processing error made by the Scottish Government. The Authority were unsure as to why this error occurred and have agreed to discuss this with the Scottish Government payroll team to ensure that similar issues are not encountered in the future.

### Refer action point 1

18. Another issue was identified during the audit in relation to an £80,000 accrual processed in respect of the future costs associated with the Enhancing Effective Practice in Community Supervision project (EPPICS). As this amount did not represent valid 2012/13 expenditure the accrual required to be reversed and the Authority sought Scottish Government approval to carry forward this unspent funding as part of their general fund balance.
19. Approval was received from the Scottish Government and this amount was therefore disclosed within the Statement of Financial Position as an earmarked portion of the general fund balance.

## Outlook

20. No significant changes are currently expected to the reporting framework applicable to the Authority (i.e. the FReM) for next year (2013/14).

## Audit appointment

21. 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. We were appointed as the Authority's external auditors for a five year period starting in 2011/12 and 2012/13 is year two of our audit appointment.
22. We look forward to working with the Authority's management, board members and staff to build on our good professional working relationships.

# 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. 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.
25. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

## Financial results

26. During 2012/13 the Authority reported a surplus of £69,000 with expenditure for the period of £0.939 million against the annual grant-in-aid allocation of £1.008m.
27. During 2012/13 the most significant elements of expenditure were staff costs of £718,000 (76% of net expenditure) and accommodation costs of £70,000 (7% of net expenditure).

## Budgetary control

28. 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

29. The impact of the Authority's £69,000 underspend for the year was to increase their general fund balance at 31 March 2013 to £169,000 with £80,000 of the balance being earmarked to fund the future costs associated with the Enhancing Effective Practice in Community Supervision project (EPICS) as explained at paragraph 18 and 19 above.
30. We did not identify any issues that would cause us to have concerns over the on-going sustainability of the Authority's financial position in 2013/14.



## Outlook

### 2013/14 budget

31. Core grant-in-aid funding for 2013/14 allocated to the Authority by the Scottish Government totals £900,000. This represents a 3.6% reduction on the available 2012/13 budget.
32. The Authority expects to meet the funding gap through budget savings and Level of Service Case Management Inventory (LS/CMI) funding which was £74,000 in 2012/13 and is expected to be at a similar level in 2013/14.
33. 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 annual implementation reports 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 2**

# Governance and accountability

34. 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.
35. 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.
36. 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.
37. In this part of the report we comment on key areas of governance.

## Corporate governance

### Processes and committees

38. The strategic direction and performance of the Authority is governed by the board. No new members joined the board during 2012/13.
39. The convener of the board throughout 2012/13 and 2013/14 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.
40. 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.

**Refer action point 3**

## Internal control

41. 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.
42. 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 2012/13.
43. 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.
44. Following the completion of their annual review, internal audit concluded that substantial assurance could be taken for the Authority's key systems.
45. 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.
46. We have concluded that good governance arrangements are in place at the Authority.

## Prevention and detection of fraud and irregularities

47. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
48. There were no instances of fraud or corruption reported by the Authority in 2012/13.
49. 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

50. 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.

51. 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.
52. 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

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

## Management arrangements

### Best Value

- 55. 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.
- 56. The Authority conducted a Best Value self-assessment during 2012/13. The report was presented to the audit committee in June 2013.

### Performance management

- 57. 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.
- 58. Performance against targets is discussed quarterly by the Authority's board. The performance targets against which the Authority measured internal performance during 2012/13 were all qualitative in nature but new key performance Indicators have been developed for the new Corporate Plan covering the reporting period 2013-16 which also include quantitative performance measures.

### Community/user engagement

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

## Overview of performance in 2012/13

### Performance measurement outcomes reported by the Authority

- 60. The Authority's 2012/13 annual report shows that all but one performance target identified for the year have been met with the following target being 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" by documenting and implementing revised internal accreditation processes.

# Appendix A: audit reports

## External audit reports and audit opinions issued for 2012/13

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan	9 January 2013	20 February 2013
Report on financial statements to those charged with governance (ISA 260 report)	13 June 2013	17 June 2013
Audit opinion on the 2011/12 financial statements	17 June 2013	17 June 2013
Annual Audit Report on the 2012/13 audit	1 July 2013	TBC

# 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	17	<p><b>Payroll processing error</b></p> <p>One of the monetary errors identified during the audit related to members pay and was attributable to a Logica payroll processing error made by the Scottish Government. There is a risk that similar issues may be encountered going forward.</p>	Management have agreed to discuss this with the Scottish Government payroll team to ensure that similar issues are not encountered in the future.	Director of Business Performance	31 March 2014
2	33	<p><b>Budget monitoring and efficiency savings</b></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 contained within RMA's corporate risk register. The RMA will submit Business Case to Sponsor Department addressing resource requirements for the next five years.	Chief Executive	31 March 2014 / Ongoing
3	40	<p><b>Legal challenge of Authority processes</b></p> <p>Successful legal challenge of a risk assessment report could lead to subsequent legal challenge of the Authority's accreditation processes. The board should ensure that all</p>	The RMA incorporated the accreditation process into the internal audit annual plan for 2012-13. Internal audit issued substantial assurance in relation	Chief Executive	Ongoing



Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
		possible steps are taken to ensure that the Authority's processes represent best practice and are sufficiently robust to withstand legal challenge.	to these processes.		