

Scottish Parliamentary Corporate Body

Annual report on the 2012/13 audit



Prepared for the Scottish Parliamentary Corporate Body and the Auditor General for Scotland
December 2013

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

2012/13

The Scottish public sector is experiencing significant financial challenges in providing expected levels of service within the agreed financial framework. In 2012/13 we assessed 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 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 2012/13. 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 £2.8 million, of which £1.4 million was attributable to cash related expenditure. The SPCB has acknowledged that continuing to deliver savings whilst containing expenditure within reducing budgets will be extremely challenging.

Governance and accountability

In 2012/13 the SPCB had satisfactory corporate governance arrangements in place. We examined the key financial systems underpinning the organisation's control environment and concluded that they operated sufficiently well for us to place reliance on them. Important improvements have been made in performance management and risk management principles are now embedded at a strategic level. Work is on-going to further develop risk management arrangements at operational level.

Outlook

The SPCB is moving into the third year of its four year savings plan. Significant savings have been achieved to date, however, the scope for further savings is becoming restricted and cost pressures are likely to increase in the coming years. Setting and maintaining a balanced budget will become more challenging.

There are signs that the organisation's capacity to deliver is being stretched as a result of staffing reductions and cost savings. The need to resource the forthcoming referendum on Scotland's constitutional future will increase the pressure further. It is important that the SPCB monitors organisational performance and capacity to ensure service delivery does not suffer adversely.

Introduction

1. This report is the summary of our findings arising from the 2012/13 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. A number of reports have been issued in the course of the year in which we make 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. 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 Principal 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.

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. 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.
9. 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

10. We have given an unqualified opinion that the financial statements of the SPCB for 2012/13 give a true and fair view of the state of the body's affairs and its net cash outturn for the year.
11. The SPCB is required to follow the 2012/13 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.
12. We also reviewed the Governance Statement and concluded that it complied with Scottish Government guidance.

Regularity

13. We confirmed that the expenditure and income in the financial statements was in accordance with applicable legislation and Ministerial guidance, the Budget Act for 2012/13 and legislation governing sums paid out of the Scottish Consolidated Fund.

Accounting issues

Accounts submission

14. The financial statements were received on 11 July, in accordance with the agreed timetable. The working papers were of a high standard and SPCB staff provided good support to the audit team. The audit field work was completed on 3 September and matters arising were

discussed on a regular basis with SPCB staff including the Financial Controller and the Head of Financial Resources.

15. The draft financial statements submitted to the Advisory Audit Board for consideration on 11 September did not have any unadjusted errors and this was reflected in our Report to those charged with governance submitted at that meeting.
16. 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 (FReM) 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.

Outlook

17. There are no significant changes to the 2013/14 FReM that are expected to have an impact on the SPCB's annual financial statements. The 2013/14 FReM requires the application of the recently amended version of IAS19 Employee benefits. This introduces changes which affect employers with employees in defined benefit pension schemes and increased disclosure requirements.

Financial position

18. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
19. 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.
20. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

Annual outturn

21. The SPCB is required to work within its resource budget approved by the Scottish Parliament. The annual budget approved by the Scottish Parliament was £86.7 million for 2012/13 (a net revenue budget of £82.4 million and a capital budget of £4.3 million). The SPCB reported an outturn of £83.9 million (net operating cost of £80.2 million and capital expenditure of £3.7 million) that was £2.8 million within budget.
22. The funding drawn down of £72.5 million was within the cash limit authorised by the Budget Act of £73.8 million.

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

Description	2012/13 Budget £ million	2012/13 Outturn £ million	2012/13 Difference £ million
Revenue (net)	69.4	68.6	0.8
Capital	4.3	3.7	0.6
Total	73.7	72.3	1.4
Non cash items	13.0	11.6	1.4
Total	86.7	83.9	2.8

Source: SPCB authorised budget 2012/13 and audited financial statements 2012/13

23. Exhibit 1 shows that the significant part of the variance against budget related to non cash items totalling £1.4 million: comprising mainly of depreciation of £1.2 million and £0.1 million

for MSP pension fund financing charges. The remaining revenue budget variance is £0.8 million of which £0.4 million relates to an underspend for Commissioners and Officeholders, £0.7 million relates to an underspend on MSP's costs and the remainder is an £0.3 million overspend on parliamentary service costs.

Financial position

24. The statement of financial position shows net assets of £296.7 million at 31 March 2013 (£296.3 million at 31 March 2012). Exhibit 2 shows how the £0.4 million increase 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 2013 £ million	31 March 2012 £ million	2012/13 Reserves Movement £ million
General Fund	256.8	264.2	(7.4)
Revaluation Reserve	48.7	37.5	11.2
Pension Reserve	(8.8)	(5.4)	(3.4)
Total Reserves	296.7	296.3	0.4

Source: 2012/13 audited financial statements

25. The decrease in General Fund reflects the fact that the cash funding required from the Scottish Consolidated Fund was less than the accounting cost of operations (excluding pensions). The increase in Revaluation Reserve reflects an upward revaluation of non-current assets. There was an increase in the actuarial valuation of pension liabilities for the Members Pension Fund.

Capital investment and performance 2012/13

26. Capital expenditure during the year was well managed. The SPCB's outturn on capital expenditure of £3.7 million was £0.6 million less than its budget of £4.3 million. The principal element of this expenditure related to the construction of the new External Security Facility. Prior to 31 March it was identified that a greater proportion of the construction costs than anticipated would be incurred in 2013/14 rather than 2012/13. Expenditure on projects previously planned for 2013/14 was brought forward to manage the gap, however a small underspend resulted.

Financial planning to support priority setting and cost reductions

27. The UK Comprehensive Spending Review (CSR) was published on 20 October 2010 and presented budgets for the period 2011-15. The figures for Scotland included in the CSR showed a real terms fall in the departmental expenditure limit of 11.3% between the expenditure budgeted for 2010/11 and that budgeted for 2014/15. Departmental Expenditure

Limits (DEL) forms the majority of the budget and is made up of the planned operating and capital expenditure.

28. The SPCB responded to the funding pressures by developing and implementing a Future Resources 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 11.0% (based on June 2013 deflators) to 2014/15 against a 2010/11 baseline.
29. The Future Resources Plan was designed to deliver the majority of the planned savings in the first two years of the programme and has been successful in achieving this, leaving further savings of £0.6 million to be achieved. To facilitate this, the SPCB continues to monitor its costs closely and is seeking new approaches to generating income.

Workforce planning

30. The voluntary early retirement scheme and redeployment policy implemented as part of the Change Management Plan have been successful in helping the SPCB to deliver a planned reduction in staff by 2014/15 without compulsory redundancies. During our financial statements audit we noted that accruals for annual leave and flexitime due to staff had increased (by 16.69% and 65.45% respectively). Whilst acknowledging that the number of FTE staff included in the calculation has increased by 8.3%; this is potentially indicative of increasing pressure on staff as the overall establishment has decreased.
31. The SPCB has itself recognised that it is working at its capacity and that it needs a workforce that has the ability to respond to emerging challenges and long-term strategic change in service delivery. Recognising this, the SPCB has introduced an Agility Framework Project to further improve organisational agility and develop more integrated workforce planning through:
 - supporting the capability to respond to changing business needs whilst maintaining business continuity
 - meeting individual needs
 - resourcing peaks and troughs of the parliamentary cycle within the agreed financial cap; and
 - simplifying business processes.
32. The outcome of this project is likely to have a significant impact on how successfully the SPCB continues to deliver high quality services to members in the face of staffing reductions and cost pressures.

Outlook

2013/14 budget

33. In December 2012 the Finance Committee of the Scottish Parliament considered and recommended the approval of the SPCB's budget bid of £86.9 million for 2013/14. The budget bid comprised a net revenue budget of £72.1 million, a capital budget of £3 million and £11.8 million for capital charges (depreciation).

2013/14 budget reporting

34. The SPCB's total revenue and capital expenditure for the period to 30 June 2013 was £18.5 million. This represented an underspend against budget of £1.3 million (6.5%). The overall underspend is higher, in percentage and absolute terms, than the comparable position for 2012/13 of £0.9 million (5.3%).

Financial forecasts beyond 2013/14

35. A large part of the SPCB's annual budget is determined by external factors in respect of MSP pay and expenses (2013/14 - £24.5 million), where the budget is largely committed by Parliamentary resolution/legislation. Funding for Officeholders (2013/14 - £8.1 million) is also subject to different governance arrangements from the rest of the SPCB's budget. Approximately 30% of the revenue budget is accounted for by staff payroll costs. The remaining 24% covers the general running and property costs of the organisation.
36. Significant savings have been achieved through a voluntary early retirement scheme and a freeze on staff salaries. Whilst the remaining savings required are less than those previously achieved, they will be harder to deliver as the SPCB faces cost pressures arising from the end of the pay freeze with less scope to find the savings needed.

Governance and accountability

37. 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.
38. 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.
39. 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
40. In this part of the report we comment on key areas of governance.

Corporate governance

Overall effectiveness

41. We found that, overall, corporate governance arrangements operated effectively during 2012/13, although there is scope to further embed risk management principles at operational level.

Processes and committees

42. The Leadership 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.
43. The Advisory Audit Board, comprised of two members of the SPCB and three independent persons, considers all matters of governance, audit and internal control. It considers the adequacy of the arrangements for ensuring sound governance and internal control, the assessment and management of business risks, the planned activity of internal and external audit and the results of their work.

44. Independent members of the AAB typically sit on the AAB for an initial period of three years with the potential for a further three year term. In March 2013 the SPCB approved the reappointment of the current chair beyond the normal term to allow a more recently appointed member sufficient time to develop a knowledge and understanding of the SPCB's operations and business in advance of their being appointed as chair.

Risk management

45. The SPCB developed its strategic risk management arrangements further during the year. Risk management is seen as a key element of the SPCB's Organisational Performance Framework (OPF) which brings together strategic planning and monitoring, operational and strategic risk management, and high level performance indicators to aid decision making and resource allocation.
46. A Strategic Risk Register has been prepared to identify the risks that may act as barriers to the successful delivery of the Strategic Plan and the SPCB's strategic objectives. Risks are prioritised by the Leadership Group in terms of their likelihood and impact and are scored on an inherent and residual risk basis, taking account of mitigating actions and controls.
47. Progress has been made at the strategic level however there is still work to do to fully embed the process across the organisation. Work is currently on-going to embed risk management principles at office level and to develop operational risk registers across the parliamentary service.

Internal control

48. 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.
49. Our audit approach includes a review of the high level controls operating within SPCB's key financial systems. Our interim audit report concluded that the 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.
50. A key element of our work on internal controls is the extent of reliance 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 SPCB's internal audit service is carried out in accordance with Public Sector Internal Audit Services (PSIAS).
51. The Head of Internal Audit concluded in his annual report that substantial assurance can be taken from the areas reviewed, subject to the implementations of agreed recommendations.
52. The SPCB's internal audit service is led by the Head of Internal Audit who works directly for the SPCB. He is supported by an external provider which was appointed following open

competition in 2010. In May 2013 the Head of Internal Audit began a part-time secondment for one year that will reduce his direct input in the internal audit process in the period. While the Head of Internal Audit will retain overall ownership of the internal audit function, arrangements are in place with the current external provider and staff in house to provide additional support. It would be appropriate for the AAB to keep this arrangement under review to ensure that the arrangement continues to meet the SPCB's needs.

Refer Action Plan No 1

Governance statement

53. In 2012/13 the SPCB included a governance statement in its annual accounts as required. In accordance with Scottish Government guidance, this included description and assessment of the essential components of corporate governance.
54. We found that the governance statement complied with the requirements set out in guidance. We note, however, that although the statement included details of the risk management arrangements there was limited commentary on the effectiveness of the arrangements or details of any significant risk-related matters arising during the period. As noted in our 2011/12 audit report future governance statements could be strengthened by providing a fuller commentary on the risks the SPCB faces and the actions taken to mitigate these.

Performance management

55. In June 2013 the SPCB approved an updated Strategic Plan 2013-16 setting out the plans and strategies for the next three years. An Organisational Performance Framework (OPF) has been developed as a mechanism to measure and report performance against the Strategic Plan.
56. In the past year good progress has been made. Detailed performance monitoring recording performance against a range of KPIs and progress on major projects is available to senior managers through the performance management portal. A quarterly summary report is presented to the Leadership Group and the SPCB to facilitate monitoring.

Prevention and detection of fraud and irregularities

57. The SPCB is responsible for establishing arrangements to prevent and detect fraud and other irregularity. We review and report on these arrangements.
58. 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 SPCB Staff Handbook.

NFI in Scotland

59. The SPCB participates in the National Fraud Initiative (NFI). This is a counter-fraud exercise that uses computerised techniques to compare information about individuals held by different public bodies to identify circumstances that might suggest the existence of fraud or error

(matches). Where matches are identified public bodies are expected to investigate these and if fraud and error has taken place, to stop payments and attempt to recover the amounts involved. The exercise also provides assurance on the effectiveness of arrangements and helps deter fraud.

60. The latest exercise, which started in December 2012, identified 327 matches for follow-up by the SPCB. These have now all been investigated with 326 being resolved without issue. One instance was identified of a duplicate payment for which recovery has been made. Audit Scotland is due to report the national outcome of the NFI in May 2014.

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

61. 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.
62. 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

63. The current environment of reducing resources is one in which the SPCB's governance and accountability arrangements will be tested. The work being done now to embed principles of risk and performance management across the organisation will be key to the delivery of the Strategic Plan 2013-2016.

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 Advisory Board
Annual Audit Plan	16 January 2013	23 January 2013
Review of the adequacy of internal audit	7 March 2013	17 April 2013
Interim report	10 April 2013	17 April 2013
Report on financial statements to those charged with governance	5 September 2013	11 September 2013
Audit opinion on the 2012/13 financial statements	5 September 2013	11 September 2013

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	52	<p>Internal audit</p> <p>The Head of Internal Audit is on a part-time secondment for one year which will reduce his role in the internal audit process.</p> <p><i>Risk. The work of internal audit is not completed to an acceptable standard and/or the agreed plan is not completed.</i></p>	<p>Comments are noted - Arrangements are in place to cover his planned reduction in hours including drawing down services from an external provider and support being provided from staff in house as required.</p>	CEO	Already in place