Risk Management Authority

Annual report on the 2013/14 audit

AUDIT SCOTLAND

Prepared for Members of Risk Management Authority and the Auditor General for Scotland

1 July 2014

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

2013/14

We have given an unqualified opinion that the financial statements of the Risk Management Authority (the Authority) for 2013/14 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.

During 2013/14 the budget allocated to the Authority was £970,000. On an accruals basis, the net expenditure for the year was £917,000 resulting in an underspend against budget of £53,000. However, as the annual allocation is made on a cash basis, in order to determine whether the Authority operated within the allocation, expenditure for the year also requires to be considered on a cash basis. On a cash basis the Authority underspent their budget by £116,000 as expenditure for the year was £854,000.

Outlook

As reported in previous years the number of 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.

Over recent years the Authority has consistently operated within its resource allocation and as a result has steadily increased its cash and cash equivalents balance from £322,000 at 31 March 2011 to £559,000 at 31 March 2014. As the Financial Memorandum requires that cash balances be kept '*…at the minimum level consistent with the efficient operation of the Authority*', management should review, in consultation with the Scottish Government, whether the current level of the cash and cash equivalents are required by the Authority for operational purposes.

Recent developments resulting from the Scottish Government consultation on redesigning the criminal justice system have led to plans for a single agency being set up to replace the 8 existing Community Justice Authorities (CJAs). This single agency will not however incorporate the Authority and the only immediate impact will be in terms of how they engage with Local Authorities and the new single agency being set up to deliver training of case management staff. The Scottish Government commenced a further consultation in March 2014 to look at the detail of how the new single agency will operate and as the Authority are involved in this process, details of how they will engage with the new body should be agreed prior to it coming in to existence at the start of 2015/16.

Introduction

1. This report is the summary of our findings arising from the 2013/14 audit of the Risk Management Authority (the Authority). The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinions (i.e. on the financial statements) and conclusions on significant issues arising.

2. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). This sets out the wider dimensions of the public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management; however this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of the Authority and no responsibility to any third party is accepted.

3. Appendix A is an action plan setting out the high level risks we have identified from the audit. 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 Authority understands its risks and has arrangements in place to manage these risks. Board members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.

4. This report will be published on our website after consideration by the Authority and after the financial statements have been laid before parliament.

5. 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

Conduct and scope of the audit

6. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan presented to the Audit Committee on 16 December 2013, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.

7. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2013/14 agreed fee for the audit was £6,400 (£6,400 in 2012/13) and as we were not required to carry out any additional work outwith our planned audit activity this fee remains unchanged.

Audit opinion & accounting issues

8. We have given an unqualified opinion that the financial statements of the Authority for 2013/14 give a true and fair view of the state of the body's affairs and of its net expenditure for the year. The audit opinion was formally issued and signed on 1 July 2014.

9. We received the unaudited financial statements on 19 May 2014, in accordance with the agreed timetable. Management and staff provided good support to the audit team, however due to unplanned management and staff absences we were unable to complete our on-site fieldwork by the planned target date of 23 May 2014 and had to return for a further day to complete testing on 27 May 2014. The Authority is required to follow the 2013/14 Government Financial Reporting Manual (FReM) and we can confirm that the financial statements have been properly prepared in accordance with these accounting requirements.

Significant findings and key judgements (ISA260)

10. During the course of the audit we identified a number of disclosure and presentational issues within the unaudited accounts

11. **Strategic Report:** The *Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013* came into force this year. The Regulations require that "the directors of a company must prepare a Strategic Report for each financial year of the company" and sets out what information must be disclosed within the report. The unaudited accounts did not contain a Strategic Report but included much of the required information within the Directors' Report. The accounts have now been revised to include a separate Strategic Report and Directors' report that reflects the disclosure requirements set out in the regulations and interpreted in the Government Financial Reporting Manual (FReM).

12. **Reconciliation of SEAS ledger to local expenditure log:** During the financial statements audit a number of anomalies and inconsistencies were identified between the balances per the Scottish Executive Accounting System (SEAS) trial balance and the amounts recorded within the Authority's local records. Following discussion and investigation these issues were

resolved and adjustments were processed as required. However, to minimise the occurrence of such issues in 2014/15 the Authority should ensure they reconcile the SEAS figures to their own local records on a monthly basis. They should also liaise with their Scottish Government finance contact to ensure that any inconsistencies that arise are resolved at the time when the source of the error should be easier to identify.

Refer Action Plan No. 1

13. **Recognition of expenditure:** During both the 2012/13 and 2013/14 audits a number of instances were identified where expenditure had been accrued and recognised in the financial statements prior to the goods or services being delivered. These mainly related to projects where the contract or agreement had been signed but as the actual good or service had not yet been received they should not have been accounted for as current year expenditure. Therefore, adjustments were required to derecognise this expenditure and release the money back to reserves. To avoid similar issues being encountered in future years, and to reduce the risk that funding is drawn down in advance of need, management should ensure that accruals are only processed when the actual good or service has been delivered prior the financial year end.

Refer Action Plan No. 2

14. **Duplicate invoice payment**: During audit testing it was noted that an invoice from a supplier had been paid twice as the system had not identified the payment as a duplicate and a credit note had been issued. Although the 2013/14 accounts reflected the refunded payment, this highlights a control weakness in the system that enabled a duplicate payment to be processed.

Refer Action Plan No. 3

Financial position

2013/14 Outturn

15. The main financial objective for the Authority is to ensure that the financial outturn for the year is within the resource budget allocated by Scottish Ministers.

2013/14 Financial position

16. The 2013/14 financial statements show that on a cash basis the Authority's outturn was £854,000, representing an underspend of £116,000 against their Grant-in-Aid allocation for the year of £970,000.

17. On an income and expenditure basis, the financial statements show a surplus of £53,000. This is the difference between the net operating costs for the year as shown in the Statement of Comprehensive Net Expenditure of £917,000 and the annual funding received from the Scottish Government of £970,000.

Financial planning

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

19. The Scottish Government issued the Authority with indicative funding figures for a three year period, 2012/13, 2013/14 and 2014/15. Grant in Aid funding for 2014/15 allocated to the Authority is £900,000. This is the same level of funding received in 2013/14 and the Authority will also again receive an additional allocation of £70,000 to fund Level of Service / Case Management Inventory (LSCMI) costs.

20. Over recent years the Authority has consistently operated within its resource allocation and as a result has steadily increased its cash and cash equivalents balance from £322,000 at 31 March 2011 to £559,000 at 31 March 2014. As the Financial Memorandum requires that cash balances be kept *'…at the minimum level consistent with the efficient operation of the Authority'*, management should review, in consultation with the Scottish Government, whether the current level of the cash and cash equivalents are required by the Authority for operational purposes.

Refer Action Plan No. 4

Corporate governance and systems of internal control

Overall governance arrangements

21. 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.

22. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements and overall we found the Authority had sound governance arrangements in place which included a number of standing committees overseeing key aspects of governance.

Framework document

23. As reported in our 2013/14 Annual Audit Plan a draft framework document has been issued by the Scottish Government which sets out the broad framework within which the Authority operates and defines key roles and responsibilities which underpin the relationship between the Authority and the Scottish Government. As this document has still not been approved the Authority are currently operating in accordance with the requirements of the management statement / financial memorandum which was last updated in May 2012. This presents a small risk that the requirements of the document do not adequately reflect their current activities or applicable legislation.

Refer Action Plan No. 5

Processes and committees

24. The members of the board are appointed by the Scottish Ministers. The current board has eight members including the chairperson. The strategic direction and performance of the Authority is governed by the board. Three board members left during the year and were replaced by three new appointees.

25. The chairperson 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 over recent years.

26. The board has established six committees, the Accreditation Committee, the Appeals Committee, the Audit Committee, the Remuneration Committee, the Research and Training Committee, and the Risk Management Plan Approval Committee. The Audit Committee has the direct responsibility for corporate governance and provides the Accountable Officer with assurance as to the Authority's compliance. The committee considers all internal and external audit reports and ensures any issues raised are addressed.

Accounting and internal control systems

27. 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.

28. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

29. Many of the Authority's processes rely on systems hosted centrally by the Scottish Government. 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 Scottish Government systems utilised by the Authority in 2013/14.

30. As part of our risk assessment and planning process our Scottish Government audit team assessed the Scottish Government Internal Audit Division, the Authority's internal auditors, and concluded that they operate in accordance with the Public Sector Internal Audit Standards (PSIAS). 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.

Prevention and detection of fraud and irregularity

31. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.

32. There were no instances of fraud or corruption reported by the Authority in 2013/14.

33. The Authority has appropriate arrangements in place (based on Scottish Government guidance) to prevent and detect instances of fraud and corruption. In our opinion, the overall arrangements for the prevention of fraud are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.

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

34. 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. Auditors consider whether bodies have adequate arrangements in place. No issues have been identified by us for inclusion in this report.

Best value

35. The Authority have considered Scottish Government guidance on Best Value and developed an approach to address this.

36. The Authority conducted a Best Value self-assessment during 2012/13 and are currently concluding a further Best Value review which will be reported to the audit committee in September 2014.

Outlook

37. As reported in previous years the number of 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.

38. Recent developments resulting from the Scottish Government consultation on redesigning the criminal justice system have led to plans for a single agency being set up to replace the 8 existing Community Justice Authorities (CJAs). This single agency will not however incorporate the Authority and the only immediate impact will be in terms of how they engage with Local Authorities and the new single agency being set up to deliver training of case management staff. The Scottish Government commenced a further consultation in March 2014 to look at the detail of how the new single agency will operate and as the Authority are involved in this process, details of how they will engage with the new body should be agreed prior to it coming in to existence at the start of 2015/16.

Acknowledgements

39. We would like to express our thanks to the staff of the Authority for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.

Appendix A: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	12	**Reconciliation of SEAS ledger to local expenditure log** A number of anomalies and inconsistencies were identified between the balances per SEAS and the amounts recorded within the Authority's local records. *There is a risk that errors or mispostings may impact upon the accuracy of the Authority's financial statements.*	Reconciliation to SEAS is performed monthly for expenditure accounts. This will be extended to include Balance Sheet accounts.	Director of Business Performance	June 2014
2	13	**Recognition of expenditure** During 2012/13 and 2013/14 a number of instances were identified where expenditure had been accrued and recognised in the financial statements prior to the goods or services being delivered. *There is a risk that expenditure would be overstated in the Authority's financial statements.*	Review of accruals to be conducted	Director of Business Performance	September 2014

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
3	14	**Duplicate invoice payment** During 2013/14 a supplier was paid twice for the same invoice. *There is a risk of financial loss as the system does not appear to prevent duplicate payments.*	Purchasing procedures to be reviewed.	Director of Business Performance	July 2014
4	20	**Cash and cash equivalents balance** The Authority held cash and cash equivalent balances of £559,000 at 31 March 2014. *There is a risk that the Authority is retaining funds in excess of the level required for operational purposes.*	Draft framework document revises requirement to state that: '…cash reserves held during the course of the year should be kept to the minimum level consistent with the efficient operation of the NDPB and the level of funds required to meet any relevant liabilities at the year end.' Therefore cash balances will be reconciled against commitments.	Director of Business Performance	October 2014

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
5	23	**Scottish Government Framework document** As the draft framework document has still not been approved the Authority are currently operating in accordance with the requirements of the management statement / financial memorandum which was last updated in 2011. *This presents a small risk that the requirements of the document do not adequately reflect their current activities or applicable legislation.*	Sponsorship Framework to be presented to the Board for approval.	Director of Business Performance.	July 2014