



SCOTTISH PARLIAMENTARY CORPORATE BODY

Annual report on the
2013/14 audit

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

December 2014

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Key messages

Financial statements

- Unqualified auditor's report on the 2013/14 financial statements.

Financial position

- SPCB once again operated within budget.
- Net operating costs were down 1.5% when compared with 2012/13.
- Capital expenditure of £4.8 million related primarily to the External Security Facility.
- Financial management remained strong with a robust budget management process.

Governance & accountability

- SPCB had satisfactory governance arrangements in place.
- SPCB had an effective internal audit function and satisfactory anti-fraud arrangements.
- Risk management continued to strengthen at both strategic and operational levels.
- A well developed framework was in place for monitoring and reporting performance and operated effectively during 2013/14.

Outlook

- SPCB continue to operate within a challenging financial environment and need to ensure that they manage the pressures upon costs effectively.
- High risk projects such as Digital Parliament should continue to be monitored closely at senior management level.

Introduction

This report is a summary of our findings arising from the 2013/14 audit of the Scottish Parliamentary Corporate Body (SPCB). The purpose of the annual audit report is to summarise the auditor's opinions and conclusions, and to report any significant issues arising from the audit. The report is divided into sections which reflect our public sector audit model.

Our responsibility, as the external auditor of the SPCB, is to undertake our audit in accordance with International Standards on Auditing (UK and Ireland) and the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.

The management of the SPCB is responsible for:

- preparing financial statements which give a true and fair view
- implementing appropriate internal control systems
- putting in place proper arrangements for the conduct of its affairs
- ensuring that the financial position is soundly based.

This report is addressed to the SPCB and the Auditor General for Scotland and should form the basis of discussions with the Advisory Audit Board as soon as possible after it has been issued. Reports should be made available to stakeholders and the public, as audit is an essential element of accountability and the process of

public reporting.

This report will be published on our website after it has been considered by the SPCB.

Audit Scotland has issued a number of reports during the course of the year that have relevance to this audit. The local reports issued during the year have been listed in Appendix I. 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.

The concept of audit risk is of key importance to the audit process. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and our wider dimension work. We set out in our annual audit plan the related source of assurances and the audit work we proposed to undertake to secure appropriate levels of assurance. Appendix II sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements and our other work.

Appendix III 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 "Management action/response".

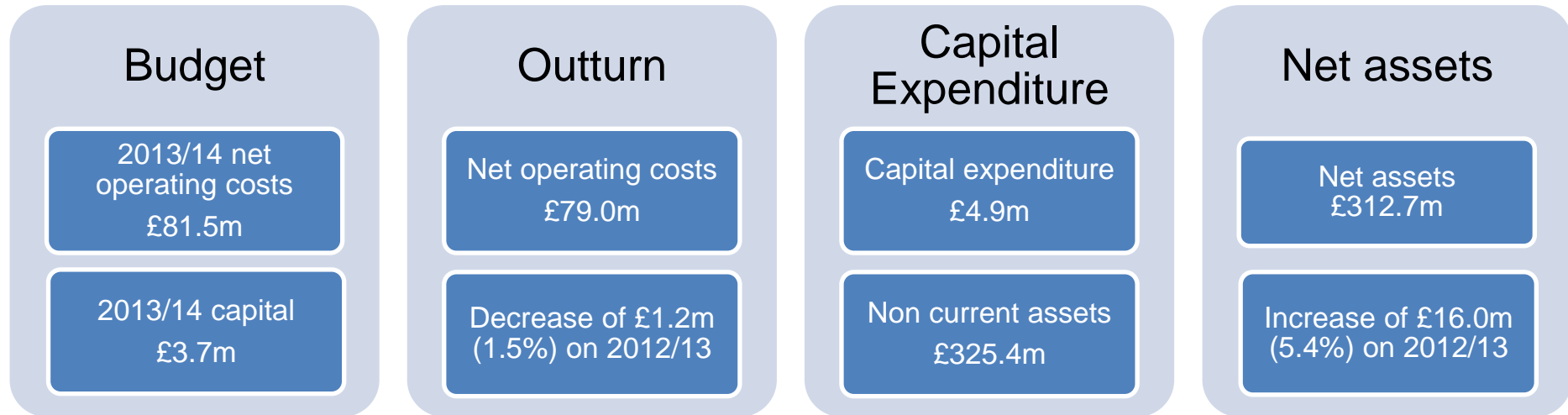
We recognise that not all risks can be eliminated or even minimised. What is important is that the SPCB understands its

risks and has arrangements in place to manage these risks. The SPCB and the Accountable Officer should ensure that they are satisfied with proposed management actions and have a mechanism in place to assess progress and monitor outcomes.

We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Financial statements



Audit opinion

We have given an unqualified opinion that the financial statements of the SPCB for 2013/14 give a true and fair view of the state of its affairs and of its net resource outturn and net cash outturn for the year.

Other information published with the financial statements

Auditors review and report on other information published with the financial statements, including the Management Commentary (Report of the Corporate Body and Strategic Report), Remuneration Report and the Governance Statement. No issues require to be

reported in respect of these statements.

Regularity

The Public Finance and Accountability (Scotland) Act 2000 requires auditors to certify that, in all material respects, the income and expenditure shown in the accounts was incurred or applied in accordance with relevant legislation and guidance issued by Scottish Ministers. We addressed the requirements of the Act through a range of procedures, including obtaining written assurances from the Principal Accountable Officer.

No issues require to be reported.

Accounts submission

We received the unaudited financial statements on 20 June 2014, in accordance with the agreed timetable. The financial statements were supported by a comprehensive set of working papers and schedules and the SPCB staff provided good support to the audit team during the course of the audit. Audit testing was substantively completed by 1 August 2014. Due to the split recess to accommodate the referendum in September 2014, the accounts were prepared and audit fieldwork completed earlier than in previous years.

The unaudited accounts that we received contained an incomplete Remuneration Report. The SPCB was unable to obtain accurate and reliable pensions figures from MyCSP for a number of weeks following submission of the unaudited accounts. We have noted the considerable time and effort on the SPCB's part to ensure that accurate figures were included in the Remuneration Report contained in the signed financial statements.

The accounts were finalised following Advisory Audit Board consideration on 15 August 2014, and the Clerk/Chief Executive signed them on 19 August 2014. The Auditor General for Scotland signed the Independent Auditor's Report on 21 August 2014. The accounts were laid before Parliament on 1 October 2014.

Accounting issues arising

A small number of presentational and monetary adjustments were identified in the financial statements during the course of our audit. These were discussed with management who agreed to amend

the unaudited financial statements. The net effect was to increase expenditure and decrease net assets by £4,000.

Group accounting for SFF

Scotland's Futures Forum (SFF) is a limited company created and owned by the SPCB. Funding arrangements have been noted within the financial statements in note 18, related party transactions along with narrative commentary explaining the form and function of SFF. SPCB had considered presenting SFF financial statements with their own, but had concluded group accounting was not required for 2013/14 based upon the immaterial balances involved. We agreed with this accounting treatment. The SPCB should review the nature of their relationship and expenditure with SFF each year to ensure that they continue to account for it appropriately.

Action Point 1

Report to those charged with governance

We presented our report to those charged with governance (ISA 260) to the Advisory Audit Board on 15 August 2014. The primary purpose of this report was to communicate the significant findings arising from our audit prior to finalisation of the independent auditor's report. The main points raised have been summarised in the previous paragraphs.

Outlook

There are no significant changes to the 2014/15 Financial Reporting Manual (2014/15 FReM) that are expected to have an impact on the SPCB's annual financial statements.

Financial position

Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.

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.

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

Financial results

Annual Outturn

The SPCB is required to work within its resource budget approved by the Scottish Parliament. The annual budget approved by the Scottish Parliament was £85.2 million for 2013/14 (a net revenue budget of £81.5 million and a capital budget of £3.7 million). The SPCB reported an outturn of £83.8 million (net operating cost of £79.0 million and capital expenditure of £4.8 million) that was £1.4 million within budget.

The funding draw down of £70.7 million was within the cash limit authorised by the Budget Act of £72.0 million.

The main elements of the £1.4 million variance against budget were an overspend against capital of £1.2m, an underspend on MSP's costs of £1.0 million and Parliamentary Service underspend of £0.7 million. Other areas reported smaller under- and overspends against budget.

Financial Position

The statement of financial position shows net assets of £312.7 million at 31 March 2014 (£296.7 million at 31 March 2013). The biggest reserve movement in year was an £18.7 million increase in the revaluation reserve which reflected an upward indexation of the Holyrood building during the year.

Capital Expenditure

Capital expenditure during the year was well managed. The

principal element of the £4.8 million expenditure in 2013/14 related to the External Security Facility (ESF). Construction of the ESF was completed in year and it became operational in October 2013.

Budgetary Control

SPCB have well developed budgetary control mechanisms in place. Finance staff understand well the requirements for internal monitoring of budgets and the budget setting process. Regular management reports ensure that senior staff are kept timeously up to date on performance against budget.

Financial sustainability

SPCB funding is 'top-sliced' and not constrained by Scottish Consolidated Fund (SCF) funding pressures, however the SPCB consistently sets its budget in line with SCF constraints. This is equivalent to a real terms reduction of 11.0% (based on June 2013 deflators) to 2014/15 against a 2010/11 baseline.

The SPCB's financial planning arrangements include regular monitoring, reporting and updating of the strategic risk register to ensure that the focus is maintained on financial performance and that action is taken on any emerging issues.

Monthly financial performance reports are submitted to the Leadership Group and are incorporated into the Chief Executive's monthly reports which are considered by the Corporate Body.

Workforce management

The Organisational Agility Framework project was established in November 2012. It is intended 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
- simplifying the business processes.

The project has led to the production of a skills matrix identifying transferrable skills within the organisation and greater alignment of workforce and learning plans to the strategic plan. The first annual Learning and Development Plan was presented to Leadership Group in March 2014, jointly with the 2014/15 Workforce Plan. An emphasis on sharing skills across the organisation and encouraging use of a skills matrix when considering recruitment, learning and development underpins the Workforce Plan.

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 past staffing reductions and cost pressures.

Workforce reduction

The SPCB did not offer a formal exit scheme in 2013/14. A

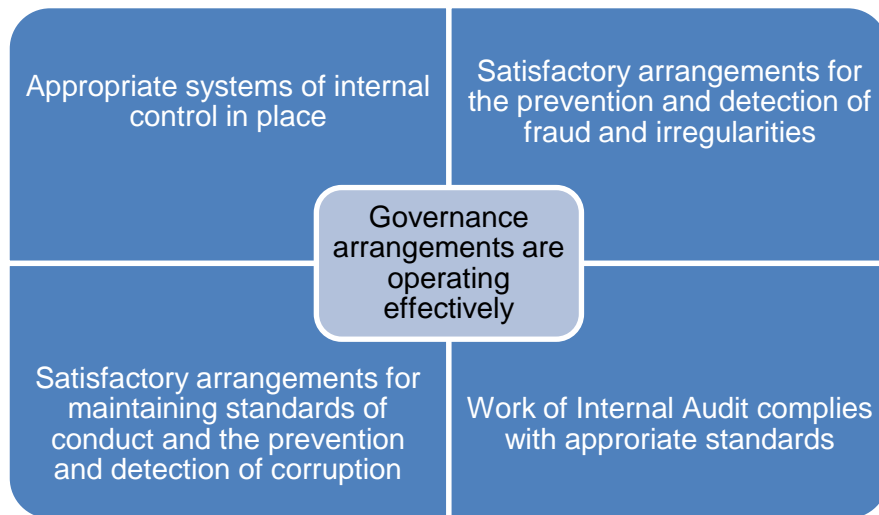
previous voluntary early retirement scheme and redeployment policy implemented as part of the Change Management Plan have been successful in helping the SPCB to deliver a planned reduction in staff without compulsory redundancies.

Outlook

In November 2013 the Finance Committee of the Scottish Parliament considered and recommended the approval of the SPCB's budget for 2014/15. Financial planning for 2015/16 received Corporate Body approval in October 2014 and was considered by the Finance Committee in November 2014.

The current economic climate poses ongoing financial pressures. SPCB need to continue to manage their expenditure carefully to ensure they can deliver a quality service within budget.

Governance and accountability



The SPCB, through its Principal Accountable Officer/Clerk/Chief Executive, is responsible for establishing arrangements for ensuring the proper conduct of the affairs of the SPCB and for monitoring the adequacy and effectiveness of these arrangements.

Corporate governance

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.

The Advisory Audit Board (AAB), 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. Two new independent members were appointed to the AAB in June 2014 to replace two leaving in September 2014.

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 chair beyond the normal term to allow a more recently appointed member sufficient time to develop knowledge and an understanding of the SPCB's operations and business in advance of being appointed chair. The new chair took over from 1 October 2014.

Based on our observations, completed audit work, and relying on the work of Internal Audit, our overall conclusion is that the governance and internal control arrangements within SPCB operated effectively during 2013/14.

Governance Statement

The SPCB included a governance statement in its annual accounts in accordance with Scottish Government guidance. The statement included description and assessment of the essential components of corporate governance and details of any significant risk-related matters arising during the period. We confirmed that the statement was prepared in line with guidance and that relevant risks and issues have been included.

We had noted during previous audits that the statement could be strengthened by providing a fuller commentary on the risks the SPCB faces and the actions taken to mitigate these. The statement this year detailed three of the most significant risks facing the Parliament, taken from the Strategic Risk Register. There is an opportunity to continue to develop this approach. Consideration should be given in future years to further expanding upon this element of the statement.

Action point 2

Internal control and risk management

Our audit approach includes a review of the high level controls operating within SPCB's key financial systems. We carried out a detailed review in 2012/13. This work concluded that the key controls were operating satisfactorily and that the SPCB has adequate systems of internal control in place. After confirming that there were no significant changes to the control systems, we were able to rely on this for the purpose of our opinion on the 2013/14

accounts.

Risk management continues to operate well at a strategic level, with the Strategic Risk Register being used to identify risks that may act as barriers to the successful delivery of the Strategic Plan and the SPCB's strategic objectives.

Work is ongoing to embed risk management at an operational level. Part of the budget setting and office planning process this year involved office and business units identifying key activities and risks associated with the successful delivery of them. Specific risk training was also developed in year. During the 2014/15 audit, we plan to review further the developments made in establishing an operational level risk register.

Internal audit

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). In a letter to the Clerk/Chief Executive, we 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).

The Head of Internal Audit concluded in his annual report that substantial assurance can be taken from the areas reviewed in year, subject to the implementation of agreed recommendations.

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, since extended, that reduced his direct input into the internal audit process in the period. The Head of Internal Audit retained overall ownership of the internal audit function and arrangements were put in place with the current external provider to provide additional support. With the exception of one review which has been carried forward into 2014/15, all planned reviews were carried out in year.

ICT & Review of major projects

During 2013/14 we conducted a high level review of the Digital Parliament project. This project focuses on business process redesign and change with an emphasis on enabling through technology.

We reviewed initial project documentation, including the business case presented to SPCB and the detailed forward delivery plan. The project is complex, involving a number of interdependent programmes and SPCB has recognised and is monitoring the associated risks. Our review identified no specific risks not already being considered by SPCB.

Major developments in relation to the project during 2013/14 include work on improving data architecture and reducing the need for printing eg through preparing electronic Committee papers. Moving forward, continued stakeholder consultation and

continuous project review will help shape the future direction of the project.

During our final accounts work, we reviewed a number of transactions in relation to Digital Parliament and concluded that these transactions were satisfactory.

We continue to monitor the progress of the project and reporting to Leadership Group and the SPCB.

Performance management

The Organisational Performance Framework (OPF) underpins the Strategic Plan by outlining how successful delivery of outcomes would look for Parliamentary business, members, the public and the Parliamentary Service. Updates on progress against the OPF are given to the Corporate Board on a quarterly basis. A Red Amber Green (RAG) system is used to highlight any areas which carry a risk of not being fully achieved.

Arrangements for the prevention and detection of fraud

SPCB's arrangements in relation to the prevention and detection of fraud and irregularities were found to be satisfactory.

SPCB participated in the National Fraud Initiative (NFI) during 2012/13. The NFI uses electronic data analysis techniques to compare information held on individuals by different public sector bodies and different financial systems, and to identify data matches

that might indicate the existence of fraud or error.

Of the 327 matches identified for follow up in 2012/13, 326 were resolved without issue and recovery has been made for one duplicate payment identified. Overall, we concluded that SPCB has satisfactory arrangements in place for investigating and reporting data matches identified by the NFI.

Audit Scotland's National Fraud Initiative Report was published on 26 June 2014. Fraud and errors worth £16 million were identified as part of this study, the largest and most diverse detection exercise undertaken by Audit Scotland to date, which involved 127 public bodies across Scotland.

The 2014/15 exercise is already underway. Matches are expected to be available for investigation in January 2015.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

The arrangements for the prevention and detection of corruption in the SPCB are satisfactory and we are not aware of any specific issues that we need to record in this report. There were no instances of internal fraud or irregularity reported by the SPCB in 2013/14.

Outlook

SPCB should continue to grow upon and strengthen its governance and internal control arrangements during 2014/15. The next round of NFI has begun and participation will give SPCB an opportunity to further review its fraud detection and prevention arrangements.

Historically, MSP salaries have been set at 87.5% of Westminster MP salaries. However, a decision was made in October 2013 to break this connection and instead link future MSP pay increases with pay increases for public sector employees in Scotland. This decision will come into effect from 1 April 2015, prior to the UK general elections.

MSP expenses continue to generate public interest. The work of the Allowances Office and publication online of all MSP expense claims ensure that the SPCB remains transparent and open in this highly scrutinised area.

Appendix I: Summary of Audit Scotland reports 2013/14

Title of report or opinion	Date of issue	Date presented to Audit Committee
Annual Audit Plan	March 2014	March 2014
Report of the Adequacy of Internal Audit	March 2014	June 2014
Report on financial statements to those charged with governance	August 2014	August 2014
Audit opinion on the 2013/14 financial statements	August 2014	August 2014

Appendix II: Significant audit risks

The table below sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure
<p>Financial sustainability</p> <p>The SPCB's total revenue and capital expenditure for the period to 30 September 2013 was £36.3m. This represents an underspend against budget of £1.2m (3.1%).</p> <p><i>Risk: the SPCB cannot sustain its budget in the longer term.</i></p>	<p>Monitored financial performance reports submitted to LG and SPCB throughout the year to assess expenditure against budget.</p> <p>Total underspend at the year end was £1.4m or 1.7%.</p>
<p>Financial sustainability</p> <p>The SPCB manages several significant contracts including building maintenance and catering. Staff responsible for the management of these contracts should be suitably qualified/have the sufficient expertise.</p> <p><i>Risk: contracts may not be operated to the standards specified and/or the SPCB may suffer financial loss.</i></p>	<p>Reviewed the work of internal audit in relation to:</p> <p>Procurement and Tendering – Contract Compliance Reviews (Catering Consumption and Stock)</p> <p>Procurement and Tendering – Contractor Performance Management (General Maintenance).</p> <p>The reports gave ratings of three and two respectively (on a scale of one (low priority) to five (high priority)).</p>

Audit Risk	Assurance procedure
<p>Financial sustainability</p> <p>The SPCB is looking for ways to generate additional income to relieve pressure on operational costs. Current income streams include shop sales and hospitality revenue.</p> <p><i>Risk: new income streams may not be available or may fail to deliver anticipated returns.</i></p>	<p>Monitored financial performance reports compiled throughout the year and reviewed the financial statements at the year end.</p> <p>Operating income increased significantly in year by 18%. Shop income alone increased by 31%.</p>
<p>Financial reporting</p> <p>The construction of the new External Security Facility was completed on time and on budget.</p> <p><i>Risk: the facility is not appropriately recognised/ valued in the 2013/14 financial statements.</i></p>	<p>Work undertaken during final accounts to ensure that the ESF was properly recognised within the 13/14 financial statements.</p> <p>Overall review of accounting entries and specific transaction testing concluded that the ESF was appropriately represented in the financial statements.</p>
<p>Scotland's Futures Forum</p> <p>Scotland's Futures Forum was created by the Scottish Parliament to help its Members, along with policy makers, business, academics, and the wider community of Scotland look beyond immediate horizons to some of the challenges and opportunities that will be faced in the future.</p> <p><i>Risk: the funding provided to Scotland's Futures Forum may not deliver the anticipated benefits.</i></p>	<p>High level review of SFF, annual accounts and internal audit report.</p> <p>No significant issues identified in any of our reviews.</p>

Audit Risk	Assurance procedure
<p>MSPs reimbursable expenses</p> <p>MSPs expenses continue to be subject to significant stakeholder interest.</p> <p><i>Risk: expenditure incurred outwith the scheme eligibility criteria is reimbursed.</i></p>	<p>Reviewed Internal Audit work on Reimbursement of MSPs Expenses and carried out some substantive work at the year end.</p> <p>No significant issues identified as part of either internal or external audit work.</p>
<p>Internal Audit</p> <p>The Head of Internal Audit is on a part time secondment for one year which has reduced 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>Review of internal audit work and progress against annual plan during the year.</p> <p>As concluded in our Report on the Adequacy of Internal Audit, we are content that work continues to be carried out to a high standard. Just one piece of work – Best Value – Efficiency – was carried forward into the 2014/15 financial year.</p>

Audit Risk	Assurance procedure
<p>Risk management arrangements</p> <p>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. Progress has been made at the strategic level however there is still work to do to fully embed the process across the organisation.</p> <p>Work is currently on-going to embed risk management principles at office level and to develop operational risk registers across the parliamentary service.</p> <p><i>Risk: until risk management processes are firmly embedded at all levels pressures impacting on the SPCB's performance may not be fully identified.</i></p>	<p>Continuous review of risk assessment within the organisation, including regular review of strategic risk register updates.</p> <p>More detailed review of operational risk registers to take place during 2014/15.</p>

Audit Risk	Assurance procedure
<p>Digital Parliament</p> <p>Effective programme management is crucial to the delivery of the Digital Parliament programme.</p> <p><i>Risk: any significant slippage will cause budget pressures for the SPCB and could impact on the delivery of the programme objectives and benefits for the organisation.</i></p>	<p>Review of Digital Parliament papers submitted to SPCB and Leadership Group, discussions with senior ICT staff and work on non current assets during final accounts.</p> <p>Digital Parliament continues to produce benefits and expenditure tested identified no major concerns. We will keep this in view over the coming audit year.</p>

Appendix III – Action plan

Action plan point/ page	Issue, risk and recommendation	Management action/ response	Responsible officer	Target date
1/5	<p>Accounting for Scotland's Futures Forum</p> <p>SPCB has not prepared accounts on a group accounting basis despite SFF falling into the definition of a subsidiary body as the SFF figures are not material. We agreed with this treatment for the 2013/14 financial year.</p> <p>Risk</p> <p>The financial statements are not prepared in line with accounting standards.</p> <p>Recommendation</p> <p>SPCB should give consideration in 2014/15 and future years as to whether group accounts require to be prepared.</p>	<p>We agree to consider the appropriate accounting treatment each year. There is no indication that it is likely to be material for the 2014-15 audit.</p>	Financial Controller	Annually to accounts timetable

Action plan point/ page	Issue, risk and recommendation	Management action/ response	Responsible officer	Target date
2/11	<p>Governance statement</p> <p>Whilst the governance statement produced in the 2013/14 annual accounts does include reference to some specific risks facing the SPCB, there is little narrative explaining these risks or any mitigating controls in place.</p> <p>Risk</p> <p>The governance statement does not give the reader of the accounts the full picture regarding the risks facing the SPCB.</p> <p>Recommendation</p> <p>SPCB should review the content of the governance statement going forward and consider further disclosure around specific risks.</p>	<p>Disclosure on risk by the SPCB will be governed by a number of factors. The level and detail of individual risks to be disclosed will be considered carefully for the Governance Statement and be in line with other SPCB published information on risk.</p>	Head of Internal Audit	Annually to accounts timetable