

# Risk Management Authority

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

Prepared for the Risk Management Authority

16 January 2020

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.


## Adding value


3. We aim to add value to the Risk Management Authority (RMA) through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the RMA promote improved standards of governance, better management and decision making and more effective use of resources.

## Audit risks

4. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risk for the RMA. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements risks</b>		
<p>1 <b>Risk of material misstatement caused by management override of controls</b></p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journal entries</li> <li>• Review of accounting estimates</li> <li>• Focussed testing of accruals and prepayments</li> <li>• Evaluation of any significant transactions that are outside the normal course of business</li> </ul>

	Audit Risk	Source of assurance	Planned audit work
2	<p><b>Risk of material misstatement caused by fraud in income recognition.</b></p> <p>As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements.</p>	<p>The RMA's sole source of income is Scottish Government Grant in Aid funding. This therefore limits the opportunity for manipulation.</p>	<p>We have rebutted the risk of fraud over income and will agree the funding amount to the Scottish Government budget allocation and subsequent revisions if applicable.</p>
3	<p><b>Risk of material misstatement caused by fraud in expenditure</b></p> <p>The Financial Reporting Council's Practice Note 10 highlights that as most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p>	<p>The RMA's expenditure streams are mainly of a routine nature with low complexity. Most of the expenditure relates to staff and accommodation costs. The risk of expenditure manipulation is therefore reduced.</p>	<p>We have rebutted the risk of fraud over expenditure. Expenditure testing will be performed as part of routine audit work with no additional procedures planned.</p>

### Wider dimension risks

4	<p><b>Financial sustainability</b></p> <p>The budget forecasts prepared by the RMA identify a total cumulative funding gap of £1.060m over the period 2020/21-2024/25. RMA expenditure is mainly staff costs and without sufficient funding the RMA may be unable to deliver certain services required by legislation.</p>	<p>The RMA has developed a five-year financial plan. The financial plan has been presented to both the Board and Sponsor Dept.</p> <p>The risk of financial sustainability is recorded and monitored on the Corporate Risk Register.</p> <p>The RMA has held several meetings with the Sponsor Department over the course of this year where financial sustainability was discussed, the following is accepted:</p> <ul style="list-style-type: none"> <li>The Sponsor Department accepts that as the number of OLRs increase there will expect a corresponding increase in RMA resource requirements.</li> <li>The Sponsor Department while recognising that flat line budgets are imposed will consider business case proposals from the RMA for increase to resources where it is evident, they are required to fulfil statutory functions.</li> </ul>	<ul style="list-style-type: none"> <li>Review the RMA's reported outturn financial position as part of the financial statement's audit.</li> <li>Review the robustness of future savings plans.</li> <li>Review the Corporate Risk Register and consider the mitigating actions in place.</li> </ul>
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**5.** As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. We have rebutted the risks of material misstatement caused by fraud in income recognition in 2019/20 because RMA income streams are limited to Scottish Government Grant in Aid funding which provides limited opportunity for manipulation and improper recognition.

**6.** In line with Practice Note 10, as most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. We have rebutted the risk of material misstatement caused by fraud in expenditure in 2019/20 because of the routine and low complex nature of RMA expenditure which limits the opportunity for manipulation and improper recognition.

## Reporting arrangements

**7.** Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**8.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Where appropriate, draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

**9.** We will provide an independent auditor's report to Risk Management Authority, Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

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## Exhibit 2 2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	03 February 2020	17 February 2020
Independent Auditor's Report (proposed)	05 June 2020	15 June 2020
Annual Audit Report	05 June 2020	15 June 2020

Source: Audit Scotland

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## Audit fee

**10.** The agreed audit fee for the 2019/20 is £7,110 (£7,010 in 2018/19). In determining the audit fee, we have taken account of the risk exposure of the RMA, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual report and accounts with a complete working papers package by 11 May 2020.

**11.** Where our audit cannot proceed as planned through, for example, late receipt of the unaudited annual report and accounts or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

## Responsibilities

### Audit and Assurance Committee and Accountable Officer

**12.** Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

**13.** The audit of the annual report and accounts does not relieve management or the Audit and Assurance Committee as those charged with governance, of their responsibilities.

### Appointed auditor

**14.** Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

**15.** Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

**16.** Our audit team membership has changed significantly since the date of our initial appointment. We include full details of the current team in Appendix 1.

# Audit scope and timing

## Annual report and accounts

**17.** The annual report and accounts, which include the financial statements, will be the foundation and source for most of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of the RMA and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the RMA will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**18.** We will give an opinion on whether the financial statements:

- give a true and fair view in accordance with the Criminal Justice (Scotland) Act 2003 and directions made thereunder by the Scottish Ministers of the state of the body's affairs as at 31 March 2020 and of its net expenditure for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 FReM; and
- have been prepared in accordance with the requirements of the Criminal Justice (Scotland) Act 2003 and directions made thereunder by the Scottish Ministers.



characteristics



responsibilities



principal activities



risks



governance arrangements

## Statutory other information in the annual report and accounts

**19.** We also review and report on statutory other information published within the annual accounts including the performance report, governance statement and the remuneration and staff report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

**20.** We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

## Materiality

**21.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.



22. We calculate materiality at different levels as described below. The calculated materiality values for the RMA are set out in [Exhibit 3](#).

### Exhibit 3 Materiality values



Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 2% of gross expenditure for the year ended 31 March 2020 based on the latest audited accounts for 2018/19.	£24,000
<b>Performance materiality</b> – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 75% of planning materiality.	£18,000
<b>Reporting threshold (i.e., clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 5% of planning materiality.	£1,000

Source: Audit Scotland

### Timetable

23. To support the efficient use of resources it is critical that the annual report and accounts timetable is agreed with us. We have included an agreed timetable at [Exhibit 4](#).

### Exhibit 4 Annual accounts timetable

 Key stage	 Date
Latest submission date of unaudited annual report and accounts with complete working papers package	11 May 2020
Latest date for final clearance meeting with Director of Corporate Services	22 May 2020
Independent auditor's report signed	15 June 2020
Issue of Annual Audit Report to those charged with governance	15 June 2020

### Internal audit

24. Internal audit is a key element of the RMA's system of internal controls. The internal audit service is provided by the Scottish Government's Internal Audit Directorate (SGIAD). The external auditors of the Scottish Government carry out an annual review of the adequacy of the SGIAD against Public Sector Internal Audit Standards (PSIAS). In June 2019, the external auditors reported that there were no areas of significant non-compliance with PSIAS. We have taken assurance from the external auditor's findings.

### Using the work of internal audit

**25.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to use the work of internal audit wherever possible to avoid duplication. We consider internal audit findings as part of our planning process to minimise duplication of effort and to ensure the total resource is used efficiently or effectively.

**26.** From our initial review of the local internal audit team's plan we plan to consider their findings from a planned review of GDPR.

### Audit dimensions

**27.** The Code of Audit Practice includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services. In light of the volume and lack of complexity of the financial transactions, we plan to apply the small body provisions of the Code to the 2019/20 audit of the RMA.

### Financial sustainability

**28.** As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps
- whether there are appropriate and effective arrangements in place for the prevention and detection of fraud and corruption.

### Governance and transparency

**29.** Governance and transparency are concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision – making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether the RMA can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports.
- the quality and timeliness of financial and performance reporting.

### Independence and objectivity

**30.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

**31.** The engagement lead for the RMA is Jim Rundell, Senior Audit Manager. Auditing and ethical standards require the appointed auditor, Jim Rundell, to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the RMA.

## Quality control

**32.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

**33.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

**34.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

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# Appendix 1: The Audit Team

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The core audit team consists of the following staff and might be supported at peak times with additional resources to ensure key reporting deadlines are met:



**Jim Rundell**  
**Senior Audit Manager**

✉ [jrundell@audit-scotland.gov.uk](mailto:jrundell@audit-scotland.gov.uk) ☎ 0131 625 1777

I am the appointed independent auditor established under the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice and guided by the auditing profession's ethical guidance.

Jim has 35 years' experience of auditing in the public sector including the audits of local authorities, health bodies and central government bodies. Jim is also Audit Scotland's quality control manager.



**David Meechan**  
**Senior Auditor**

✉ [dmeechan@audit-scotland.gov.uk](mailto:dmeechan@audit-scotland.gov.uk) ☎ 0131 625 1774

David will have overall control of the delivery and quality of the audit including audit engagement and ensuring the audit is properly planned, resourced and concluded within time. He will lead the audit team and be the main contact for the audit.

David joined Audit Scotland in 2002 after almost 25 years in private sector audit and since then has worked principally in Local Government and Health audits.



**Nathan Orr**  
**Professional Trainee**

✉ [norr@audit-scotland.gov.uk](mailto:norr@audit-scotland.gov.uk) ☎ 0131 625 1798

Nathan will provide support to the audit team in carrying out planned audit work and ensuring timely completion of the financial statements audit work.

Nathan has worked on a range of public sector audits including Food Standards Scotland, NHS Greater Glasgow & Clyde and East Renfrewshire Council.

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# Risk Management Authority

## Annual Audit Plan 2019/20

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