

# Risk Management Authority

Annual Audit Plan 2020/21



 AUDIT SCOTLAND

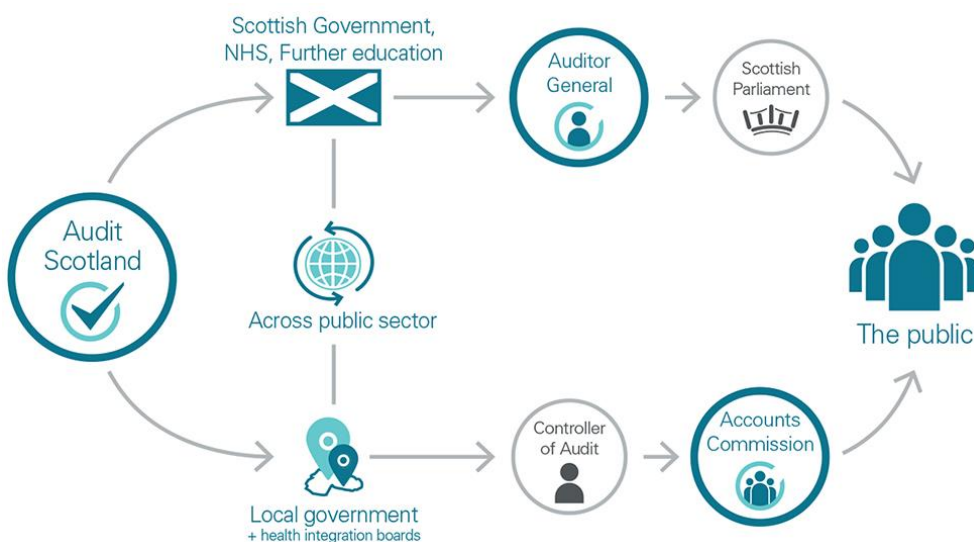
Prepared for Risk Management Authority

4 March 2021

## 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

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- 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 and governance and transparency.
- 3.** The public health crisis caused by the coronavirus pandemic (COVID-19) has had a significant and profound effect on every aspect of Scottish society. Public services have been drastically affected, requiring immediate changes to the way they are provided.
- 4.** The impact on public finances has been unprecedented, which has necessitated both the Scottish and UK governments providing substantial additional funding for public services as well as support for individuals, businesses, and the economy. It is likely that further financial measures will be needed and that the effects will be felt well into the future.
- 5.** Public audit makes an important contribution to the recovery and renewal of public services. The Auditor General, the Accounts Commission and Audit Scotland are responding to the risks to public services and finances from COVID-19 across the full range of audit work including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Maintaining a pragmatic and flexible approach will enable change at short notice as new issues emerge, or current risks change in significance. Where this impacts on annual audits, an addendum to this annual audit plan may be necessary.

## Adding value


- 6.** 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 RMA promote improved standards of governance, better management and decision making and more effective use of resources.

## Audit risks

- 7.** Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following significant risks for 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

### 2020/21 Significant audit risks

	Audit Risk	Source of assurance	Planned audit work
<b>Financial statement risks</b>			
1	<b>Risk of material misstatement due to fraud caused by the management override of controls</b>  International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.	Owing to the nature of this risk, assurances from management are not applicable in this instance.	<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>
2	<b>Risk of material misstatement caused by fraud in revenue recognition.</b>  As set out in ISA (UK)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.	The RMA's principal source of income is Scottish Government Grant in Aid funding. This therefore limits the opportunity for manipulation.	<ul style="list-style-type: none"> <li>• We have rebutted the risk of fraud over income for the reason set out in the source of assurance column.</li> <li>• Our audit focus will be on agreeing funding amounts to Scottish Government budget allocations and subsequent revisions if applicable.</li> </ul>
3	<b>Risk of material misstatement caused by fraud in expenditure</b>  As set out in Practice Note 10 (issued by the Financial Reporting Council) most public-sector bodies are net expenditure bodies and 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.	The RMA's expenditure streams are mainly of a routine nature with low complexity. Most of the expenditure relates to staff and utility costs. The risk of expenditure manipulation is therefore reduced.	<p>We have rebutted the risk of fraud over expenditure for the reasons set out in the source of assurance column.</p> <p>Expenditure testing will be performed as part of routine audit work with no additional procedures planned.</p>
<b>Wider dimension risks</b>			
4	<b>Financial sustainability</b>  The latest budget forecasts prepared by the RMA, using agreed budget expenditure 2021/22 as a baseline, identify a total cumulative funding gap of £0.702m over the 5 years 2022/23-2026/27. RMA expenditure is mainly staff costs and without sufficient funding the RMA may be unable to deliver certain services required by legislation.	<p>The RMA has developed a five-year financial plan, incorporating a range of funding scenarios.</p> <p>The risk of financial sustainability is recorded and monitored on the Corporate Risk Register.</p> <p>Regular engagement with the Sponsor Department to agree future funding requirements.</p>	<ul style="list-style-type: none"> <li>• Monitor available information on future SG funding policy.</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>

## Reporting arrangements

**8.** With Covid-19 disruption continuing, a degree of flexibility will be required with the timing of audit outputs. Currently, Audit Scotland is reviewing its priorities, and these will determine audit reporting and certification deadlines across the public sector. We will work with the finance team to agree the scheduling of work to ensure that statutory reporting deadlines are met.

**9.** Whilst continuing to emphasise the overall uncertainty applying to reporting deadlines described above, we have agreed to commence our audit of the financial statements from 17 May 2021 in order that completion can be achieved within the timescales set out in Exhibit 2. These dates should be considered indicative at this stage although we will be doing our best to achieve them.

**10.** Matters arising from our audit work will be reported on a timely basis and, where appropriate, will include an agreed action plan. The main outputs from our audit work in 2020/21 will be

- An independent auditor's report to Risk Management Authority, Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual accounts, and
- An Annual Audit Report to the Accountable Officer and Auditor General for Scotland containing observations and recommendations on significant matters which have arisen during the audit.

**11.** All of the outputs as detailed in Exhibit 2 will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

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## Exhibit 2

### 2020/21 Audit outputs

Audit Output	Target Date	AAC Date
Annual Audit Plan	31 March 2021	**
Independent Auditor's Report (proposed)	11 June 2021	21 June 2021
Annual Audit Report	11 June 2021	21 June 2021

Source: Audit Scotland

**\*\* Annual Audit Plan circulated to members in March 2021 outwith the formal Audit & Assurance Committee (AAC) cycle**

## Audit fee

**12.** The proposed audit fee for the 2020/21 audit of Risk Management Authority is £7,425 [£7,110 in 2019/20]. In determining the audit fee, we have taken account of the risk exposure of Risk Management Authority, the planned management assurances in place and the level of assurance we plan to take from the work of internal audit.

**13.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or being unable to take planned assurance 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 Committee and Accountable Officer

**14.** 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.

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

### Appointed auditor

**16.** 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.

**17.** Auditors in the public sector give an independent opinion on the financial statements and other information within the annual 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.

# Audit scope and timing

## Annual report and accounts

**18.** The annual 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 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 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.

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

- give a true and fair view of the state of affairs of the Risk Management Authority as at 31 March 2021 and of the income and expenditure of the Risk Management Authority for the year then ended
- have been properly prepared in accordance with the financial reporting framework.

## Statutory other information in the annual accounts

**20.** 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.

**21.** 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

**22.** 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.

**23.** We calculate materiality at different levels as described below. The calculated materiality values for RMA are set out in Exhibit 3.



characteristics



responsibilities



principal activities



risks



governance arrangements



## 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 per the latest updated budget for 2020/21 as at May 2020.	£34,000
<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.	£25,500
<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.	£1,700

Source: Audit Scotland

## Internal audit

**24.** Internal audit is provided by the Scottish Government's Internal Audit Directorate (SGIAD). Our external audit colleagues working on the Scottish Government audit carry out an annual assessment of the internal audit function to ensure that it operates in accordance with the main requirements of the Public Sector Internal Audit Standards (PSIAS). This assessment covers amongst other things:

- the extent to which the internal audit function's organisational status and relevant policies and procedures support the objectivity of the internal auditors
- the level of competence of the internal audit function
- whether the internal audit function applies a systematic and disciplined approach, including quality control.

**25.** We will rely on the assurances from the review of the SGIAD by our external colleagues working on the Scottish Government audit. We will report any significant findings that impact on our local audit where relevant.

### Using the work of internal audit

**26.** International Auditing Standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to avoid duplication. We plan to consider their assurance work to be carried out in support of the Governance Statement that will be included in the 2020/21 Annual Report and Accounts.

## Audit dimensions

**27.** Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in Exhibit 4.

## Exhibit 4

### Audit dimensions



Source: Code of Audit Practice

**28.** Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are financial sustainability, financial management, governance and accountability and value for money which are summarised below

- **Financial sustainability** – 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.
- **Financial management** - Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Governance and transparency** - Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership, and decision – making and transparent reporting of financial and performance information.
- **Value for money** - Value for money refers to using resources effectively and continually improving services.

**29.** 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 the 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 2020/21 audit of Risk Management Authority.

## 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) 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.

# Risk Management Authority

## Annual Audit Plan 2020/21

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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