

Risk Management Authority

2021/22 Annual Audit Report



 AUDIT SCOTLAND

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

December 2022

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Key messages

2021/22 annual report and accounts

- 1 Our audit opinions on the annual accounts are unmodified.
- 2 The Risk Management Authority's (RMA's) financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.
- 3 Expenditure and income were incurred in accordance with applicable enactments and guidance.
- 4 The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation, and directions made by Scottish Ministers.

Financial sustainability

- 5 The Risk Management Authority achieved financial balance in 2021/22 and is forecasting a break-even position for 2022/23.
- 6 Budget forecasts indicate that the RMA is facing a potential cumulative funding gap of £1.006m over the five years 2023/24 – 2027/28, using agreed 2022/23 budget expenditure as a baseline. RMA expenditure is mainly staff costs and without sufficient funding the RMA may be unable to deliver certain services required by legislation.

Governance and transparency

- 7 Disclosures in the Governance Statement are consistent with the financial statements and the statement has been prepared in accordance with the relevant statutory guidance.
- 8 The RMA's governance and transparency arrangements are appropriate.
- 9 Board and Governance Committees continued to meet on a remote basis throughout 2021/22 due to the ongoing Covid-19 pandemic.

Introduction

1. This report summarises the findings from our 2021/22 audit of the Risk Management Authority (RMA).

2. The scope of our audit was set out in our 2021/22 Annual Audit Plan presented to the 27 June 2022 meeting of the Audit and Assurance Committee. This report comprises the findings from:

- an audit of the RMA's annual report and accounts
- our consideration of financial sustainability and of governance and transparency of the RMA.

3. The RMA anticipated a return to pre pandemic working arrangements during 2021/22 but national and local lockdown arrangements prevented this. It continued to adapt its response to deliver its objectives during the year with no serious implications for the services delivered, for sickness absence levels or for major projects and activities.

Adding value through the audit

4. We add value to the RMA through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- Attendance at Audit and Assurance Committees to participate in discussions and respond to any questions from members
- sharing intelligence and good practice through our national reports and good practice guides
- providing clear conclusions on financial sustainability and the appropriateness of corporate governance arrangements, including disclosures in the Governance Statement.

Responsibilities and reporting

5. The RMA has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from Scottish Ministers.

6. The RMA is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

7. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016](#) and supplementary guidance and International Standards on Auditing in the UK.

8. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness and effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position, and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

9. The [Code of Audit Practice 2016](#) (the Code) 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. As highlighted in our 2021/22 Annual Audit Plan, due to the low volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2021/22 audit.

10. This report raises matters from our audit. The weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

11. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers, and dates for implementation.

Auditor Independence

12. 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 comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

13. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2021/22 audit fee of £7,550 as set out in our 2021/22 Annual Audit Plan, remains unchanged. Liz Maconachie was appointed as engagement lead part way through the year. Following her appointment, a retrospective review of the audit planning and audit approach was undertaken. As the audit progressed, key areas of audit focus, areas of risk of material misstatement and audit work undertaken to obtain the relevant assurances were reviewed by the engagement lead. We are not aware of any relationships that could compromise our objectivity and independence.

14. This report is addressed to the RMA and the Auditor General for Scotland and will be published on Audit Scotland's [website www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

Audit appointment from 2022/23

15. The Auditor General for Scotland is responsible for the appointment of external auditors to central government bodies. External auditors are usually appointed for a five-year term either from Audit Scotland's Audit Services Group or a private firm of accountants. The current appointment round was due to end in 2020/21 but this was extended for a year so that 2021/22 is the last year of the current appointment round

16. The procurement process for the new round of audit appointments was completed in May 2022. From the financial year 2022/23 Audit Scotland will continue to be the appointed auditor for the RMA. We are working closely with the new audit team to ensure a well-managed transition.

17. A new [Code of Audit Practice](#) applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the Code issued in May 2016.

18. We would like to thank Board members, Audit and Assurance Committee members, Senior Management Team and other staff, particularly those in finance for their co-operation and assistance over the last six years.

Part 1. Audit of 2021/22 annual report and accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

Our audit opinions on the annual accounts are unmodified.

The Risk Management Authority's (RMA's) financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.

Expenditure and income were incurred in accordance with applicable enactments and guidance.

The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation, and directions made by Scottish Ministers.

Our audit opinions on the annual report and accounts are unmodified

19. The annual report and accounts for the year ended 31 March 2022 were approved by the Audit and Assurance Committee on 2 December 2022. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income are regular and in accordance with applicable enactments and guidance
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The impact of Covid-19 pandemic on audit evidence

20. The completeness and accuracy of accounting records and the extent of information and explanations that we required for our audit were unaffected by the Covid-19 pandemic.

21. The working papers provided to support the accounts were of a good standard and the audit team received support from finance staff which helped ensure the final accounts audit process ran smoothly.

There were delays in auditing the annual report and accounts due to audit resourcing priorities

22. For 2021/22, the submission deadline for the audited annual report and accounts had been set as 31 October 2022. We noted in our annual audit plan that this would be challenging due to the ongoing pressures and uncertainties caused by Covid-19.

23. Due to audit resourcing priorities, we were not able to commence work on the audit of the annual report and accounts in time to meet that deadline, however, we were able to complete our audit work in time for our proposed Independent Auditor's Report, and draft Annual Audit Report, to be presented to the 2 December AAC.

Overall materiality is £35,000

24. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£35,000 (At planning stage £32,000)
Performance materiality	£26,000
Reporting threshold	£1,750

Source: Audit Scotland

Significant findings from the audit in accordance with ISA 260

25. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including

our view about the qualitative aspects of the body's accounting practices. We have no significant issues to report from the audit.

26. Exhibit 2 sets out the significant risks of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan. It summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 2

Significant risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Assessed the design and implementation of controls over journal entry processing. We also tested journals throughout the year as well as year end and post-closing journals.</p> <p>Made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Assessed any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</p> <p>Evaluated significant transactions outside the normal course of business.</p> <p>Assessed the adequacy of controls in place for identifying and disclosing related party transactions in the financial statements.</p> <p>Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct year.</p>	<p>Our audit work did not identify any indication of management override in the year leading to material misstatement or significant concern.</p> <p>We have reviewed the RMA's accounting records and obtained assurances that there were no transactions outside normal business processed.</p> <p>We have also reviewed management estimates and journal entries posted in the period and around year end. We did not identify any areas of bias in key judgements made by management.</p>

There were no identified misstatements

27. There were no misstatements identified that exceeded our reporting threshold.

28. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. There are no unadjusted errors to report.

Performance reporting requires further improvement

29. The performance report that accompanies the financial statements must meet the mandatory requirements set out in the Government Financial Reporting Manual (FReM). The performance report must be fair, balanced, understandable, comprehensive, and concise. The principles risks described reflect the risk register and the key performance measures, where reported, are corroborated.

30. Our review of the draft accounts noted some improvements required to meet these reporting requirements. We also noted that the RMA's performance report is lengthy and could be further reduced.

Recommendation 1

Management should review the performance report for the 2022/23 accounts to ensure compliance with the Government Financial Reporting Manual (FReM), consider reducing the length and identify areas that could be improved further

Good progress was made on prior year recommendations

31. The RMA has made good progress in implementing our prior year audit recommendation of bringing forward a review of its Business Continuity Plan. The review was completed during Q2 of 2022/23. Gaps identified for completion in 2022/23 included a Cyber Security Review which is underway and making good progress, and business continuity arrangements with third party suppliers.

Part 2. Financial sustainability

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services

Main judgements

The Risk Management Authority achieved financial balance in 2021/22 and is forecasting a break-even position for 2022/23.

Budget forecasts indicate that the RMA is facing a potential cumulative funding gap of £1.006m over the five years 2023/24 – 2027/28, using agreed 2022/23 budget expenditure as a baseline. RMA expenditure is mainly staff costs and without sufficient funding the RMA may be unable to deliver certain services required by legislation.

The RMA operated within its budget allocation for 2021/22

32. The main financial objective for the RMA is to ensure that the financial outturn for the year is within the budget allocated by the Scottish Government.

33. The RMA had an underspend of £8,000 on a budget of £1,745,000 and its performance against its Departmental Expenditure Limit (DEL) is shown in [Exhibit 3](#).

Exhibit 3

Performance against Departmental Expenditure Limit in 2021/22

Performance	Initial DEL £m	Final DEL £m	Actual drawdown £m	Over/(under) spend £m
Resource DEL	1.745	1.745	1.737	(0.008)

Source: Audited Annual Report and Accounts/ Budget Allocation and Monitoring Letter 2021/22

The RMA has a medium term financial plan in place

34. The RMA is funded directly by Grant in Aid received from the Scottish Government. Funding from the Scottish Government is the RMA's sole source of income and there is more certainty over future funding streams than for some other public-sector organisations who are involved in income generating

activities. Therefore, the focus for the RMA is achieving a balanced financial plan to remain within their annual allocation.

35. The RMA achieved financial balance in 2021/22 and is forecasting a break-even position for 2022/23, based on the financial budget approved by the Board in February 2022. The baseline budget allocation of £1.894m from the Sponsor Department represents an 8.5% increase on the prior year.

36. In February 2022, the Board also approved an updated 5 Year Financial Plan, using the agreed 2022/23 funding level as a baseline, and extending five years beyond that to financial year 2027/28.

37. The 5 Year Financial Plan forecasts annual expenditure increasing by £0.315m between 2022/23 and 2027/28, with the cumulative funding deficit forecast as being £1.006m.

38. Any savings required in 2023/24 and beyond have still to be identified, however, as the RMA's expenditure is mainly staff costs and related expenditure, it is acknowledged that potential for reducing expenditure is limited, without impacting on its ability to deliver a growing range of services required by legislation.

39. The position described is, of course, before taking into account the increased inflationary pressures of recent months, so the RMA will require to be in frequent contact with the sponsor department around funding uplifts to cover these throughout the remainder of 2022/23.

National performance audit reports

40. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. [Appendix 2](#) highlights a number of the reports published in 2021/22.

Part 3. Governance and Transparency

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.

Main judgements

Disclosures in the Governance Statement are consistent with the financial statements and the statement has been prepared in accordance with the relevant statutory guidance.

The RMA's governance and transparency arrangements are appropriate.

Board and Governance Committees continued to meet on a remote basis throughout 2021/22 due to the ongoing Covid-19 pandemic.

Disclosures in the Governance Statement are consistent with the financial statements and the statement has been prepared in accordance with the relevant statutory guidance

41. HM Treasury Financial Reporting Manual 2021/22 (FReM) specifies the preparation of a governance statement as part of the annual financial statements. The Scottish Public Finance Manual (SPFM) sets out guidance on the content and minimum requirements of the statement but does not prescribe a format. We concluded that the governance statement 2021/22 has been prepared in accordance with the guidance issued by the Scottish Ministers and presents a satisfactory explanation and assessment of the RMA's governance arrangements for the year under review.

The RMA's governance and transparency arrangements are appropriate

42. 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.

43. We consider the governance structure in place to be appropriate and suitably transparent. Board and committee minutes are available on the RMA website along with other information on the activities of the organisation. Performance information, including financial performance,

presented to the Board and relevant committees is sufficiently detailed to enable effective scrutiny.

44. Openness and transparency in how a body operates and makes decisions is key to supporting understanding and scrutiny. Transparency means that the public have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources such as money, people and assets.

45. During 2021/22 Board and Committee meetings were held remotely using Microsoft Teams although more recently there has been a move to a hybrid form of working with some members attending meetings in person.

46. We have confirmed that key financial controls remained largely unaffected by Covid-19 and continued to operate effectively during the year.

47. We have reviewed the minutes and papers submitted to the Board throughout the year. The papers are detailed and comprehensive to allow for effective decision making and scrutiny of performance.

48. We attend the Audit and Assurance Committee meetings, and papers are circulated to members in a timely manner in advance of meetings for review. Also, from our attendance at Committee we observed and concluded that members are engaged during meetings and provide effective scrutiny and challenge.

Due to the ongoing impact of Covid-19 pandemic the Board and Committee meetings were held remotely via Microsoft Teams throughout 2021/22

49. From reviewing the minutes of Board meetings and attendance at Audit and Risk Committee we concluded that these arrangements operated satisfactorily.

Best Value

50. The duty of Best Value is an auditable requirement. Ministerial guidance has been issued to accountable officers on best value. The guidance states that compliance with the duty of best value requires public bodies to take a systematic approach to self-evaluation and continuous improvement.

51. The RMA employs a suitable framework for self-assessment against best value principles. Review of these annual internal assessments has been delegated by the Board to the Audit and Assurance Committee, and they can be viewed on the RMA website.

52. The latest annual review maps seven themes relevant to RMA activity against the Scottish Public Finance Manual characteristics of best value, noting achievements and evidence, to produce an action plan for the following year.

53. The RMA demonstrates its compliance with the Equality Act 2010 by publishing the necessary Mainstreaming the Equality Duty Report bi-annually. The latest report was published May 2021 and the next report is scheduled for publication May 2023.

54. Our work across 2021/22 identified that whilst the Equalities Mainstreaming Report was published in 2021 it was not clear if it complied with the Public Sector Bodies (Websites and Mobile Applications) (No.2) Accessibility Regulations 2018 which all public sector bodies must meet, unless they are exempt.

Recommendation 2

All public sector bodies, unless exempt, must meet the requirements set out in the Public Sector Bodies (Websites and Mobile Applications) (No.2) Accessibility Regulations 2018.

55. We also identified that there were no training materials for staff relating to equalities and diversity. This is also not covered in the induction pack for new employees or members.

Recommendation 3

The RMA should provide appropriate training to existing staff and update the current induction pack for new employees and members to include training materials relating to equalities and diversity

56. Over the course of our audit, we have noted that RMA publish the annual Best Value self-assessment. We have identified that this is not reviewed and approved by the Board or Audit and Assurance Committee prior to publication. Transparency and scrutiny could be improved through reporting to the Board.

Recommendation 4

The Best Value self-assessment should be reviewed and approved by the Board prior to publication

Appendix 1. Action plan 2021/22

2021/22 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Performance Reporting requires further improvement</p> <p>The performance report that accompanies the financial statements must meet the mandatory requirements set out in the Government Financial Reporting Manual (FReM).</p> <p>Our work found improvements were required to meet those requirements and noted the performance report could be shortened.</p> <p>Risk – there is a risk that the performance of the RMA may not be transparent, and the reader may not fully understand key messages.</p>	<p>Management should review the performance report for the 2022/23 accounts to ensure compliance with the Government Financial Reporting Manual (FReM), consider reducing the length and identify areas that could be improved further</p> <p>Paragraph 30</p>	<p>The RMA accept the recommendation and will schedule to review the performance report format for future reports.</p> <p>Responsible officer: DCS</p> <p>Agreed date: Apr 2023</p>
<p>2. Compliance with 2018 accessibility regulations</p> <p>The RMA published the bi-annual Equalities mainstreaming report in 2021.</p> <p>It was not clear if the RMA complied with the Public Sector Bodies (Websites and Mobile Applications) (No.2) Accessibility Regulations 2018.</p>	<p>All public sector bodies, unless exempt, must meet the requirements set out in the Public Sector Bodies (Websites and Mobile Applications) (No.2) Accessibility Regulations 2018.</p> <p>Paragraph 54</p>	<p>The RMA is currently developing a new website which will be WCAG compliant.</p> <p>Responsible officer: DCS</p> <p>Agreed date: Apr 2023</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>Risk – there is a risk RMA have not complied with legal accessibility requirements.</p>		
<p>3. Equalities and Diversity - Update to the current staff training and induction pack</p> <p>There were no training materials for staff relating to equalities and diversity. This is also not covered in the current induction pack for new employees or members.</p> <p>Risk – there is a risk the current RMA staff training and induction training programme does not comply with the most current legislation.</p>	<p>The RMA should provide appropriate training to existing staff and update the current induction pack for new employees and members to include training materials relating to equalities and diversity.</p> <p>Paragraph 55</p>	<p>Recommendation noted. The RMA plans to develop an Equalities and Diversity Champion.</p> <p>Responsible officer: DCS</p> <p>Agreed date: Aug 2023</p>
<p>4. Improved transparency and scrutiny – Best Value self-assessment</p> <p>The annual Best Value self-assessment is currently not presented and reviewed by the Board prior to publication.</p> <p>Risk – there is a risk that there is insufficient scrutiny by Board members to ensure achievement of Best Value.</p>	<p>The annual Best Value self-assessment should be reviewed and approved by the Board prior to publication</p> <p>Paragraph 56</p>	<p>Agreed.</p> <p>Responsible officer: DCS</p> <p>Agreed date: Feb 2023</p>

Outstanding prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing+
<p>1. Business Continuity Planning</p> <p>Current plans are to carry out a review of business continuity plans in 2022. We acknowledge that, in common with many public bodies, processed in place coped well with the major upheaval</p>	<p>We recommend that the next review of business continuity planning should be brought forward, to address the current governance and operational environment</p>	<p>Ongoing – scheduled completion Q1 23/24.</p> <p>The review was completed in quarter 2 of financial year 2022/23. There were several gaps identified such as cyber security review and business continuity arrangements which are now underway.</p>

Issue/risk	Recommendation	Agreed management action/timing+
<p>of a sudden transition to remote working.</p> <p>Risk – Elements of the current BCP, not directly linked with remote working arrangement, have not been subject to recent review or testing and may not operate as designed in the “new normal” working environment.</p>		

Appendix 2. Summary of 2021/22 national performance reports and briefing papers

May

[Local government in Scotland Overview 2021](#)

June

[Covid 19: Personal protective equipment](#)

July

[Community justice: Sustainable alternatives to custody](#)

September

[Covid 19: Vaccination programme](#)

January

[Planning for skills](#)

[Social care briefing](#)

February

[NHS in Scotland 2021](#)

March

[Local government in Scotland: Financial Overview 20/21](#)

[Drug and alcohol: An update](#)

[Scotland's economy: Supporting businesses through the Covid 19 pandemic](#)

Risk Management Authority

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Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility



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