

# Scottish Parliamentary Corporate Body

Report on the 2005-06 Audit

February 2007



**Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Executive and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds**



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# Executive Summary

## Introduction

In 2005-06 we audited the financial statements of the Scottish Parliamentary Corporate Body (SPCB) which included looking at aspects of performance management and governance. This report sets out our key findings. At the planning stage we identified risks associated with SPCB meeting its business objectives, which informed our audit procedures. From our audit and review work we can conclude that these risks are being satisfactorily managed by the SPCB.

## Financial Statements

We have given an unqualified opinion on the financial statements of the SPCB for 2005-06.

## Governance

The SPCB corporate governance and control arrangements operated satisfactorily in the period under review as reflected in the Statement on Internal Control. We reviewed the corporate governance arrangements against the benchmark of the **“Good Governance Standard for Public Services”** (Langlands Commission). This noted that SPCB operated in a complex environment for governance; had developed many of the arrangements expected; but with scope for improvement in certain areas. We have also found the work of the internal audit service to be satisfactory and continue to place formal reliance on its work.

## Performance Management

The SPCB monitor the achievement of their performance against their business priorities and their programme of key developments via periodic reports from the Chief Executive. We note that these reports and the SPCB's annual report record the progress made. In addition, we had initial discussions on Best Value and Efficient Government and agreed to follow up these discussions as part of the audit for 2006-07.

I would like to record my thanks to management and staff for their co-operation and assistance.

Gavin Stevenson, Director



# Introduction

## Scope of the Audit

1. This report summarises the findings from our 2005-06 audit of the SPCB. The proposed approach, as recorded in the audit plan, was discussed with the Advisory Audit Board at their meeting on 4 May 2006. The Audit Plan described the work we planned to carry out on financial statements, governance and performance.
2. This report to management sets out the findings on the completion of our audit as at October 2006, with a limited update at February 2007 prior to submission of the report to the SPCB's Advisory Audit Board. Any weaknesses outlined are only those which have come to our attention during the course of our normal audit work and are not necessarily all the weaknesses which may exist. It is the responsibility of management to determine the extent of the internal control system appropriate to the SPCB. We would stress, however, that an effective internal control system is an essential part of the efficient management of any organisation.
3. The contents of this report have been agreed with relevant officers to confirm factual accuracy.
4. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by officers and members of the SPCB during the current audit process. This report will be submitted to the Auditor General for Scotland and will be published on our website at [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

## Outcome on Risks Identified in the Audit Plan

5. A key feature of our audit approach is the need to form a comprehensive understanding of the client's business in order to appreciate the risks arising from that business and affecting the achievement of its objectives. This was documented as part of the planning process and, for completeness, the outcome against planned activity is summarised at Appendix A. Some of the risks and outcomes are considered further in the body of this report. Overall we can conclude from the results of our work on these risks that they are being satisfactorily managed by the SPCB.



# Financial Statements

## Our Responsibilities

6. We audit the financial statements and give an opinion on whether:

- the financial statements give a true and fair view, in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by the Scottish Ministers, on the state of affairs of the Scottish Parliamentary Corporate Body as at 31 March 2006 and of its the net resource outturn, resources applied to aims, recognised gains and losses and cash flows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Government Financial Reporting Manual (FRoM) and directions made thereunder by the Scottish Ministers; and
- in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

7. We also review the Statement on Internal Control by:

- considering compliance with relevant guidance in the Scottish Public Finance Manual;
- considering the adequacy of the process put in place by the Accountable Officer to obtain assurances on systems of internal control; and
- assessing whether disclosures in the Statement are inconsistent with the information emerging from our normal audit work.

## Overall Conclusion

8. The Auditor General for Scotland has given an unqualified opinion on the financial statements of the SPCB for 2005-06. The audit opinion concludes that the financial statements of the SPCB give a true and fair view of the financial position for the period from 1 April 2005 to 31 March 2006 and that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and relevant guidance.



## Financial Performance

9. The SPCB Operating Cost Statement records a net administration cost for the financial year of £85 million (2004-05: £74 million), an increase of 15%. The largest element of the increase is depreciation, which at £12.4 million is £7.7 million higher than the previous year. In 2004-05 the accounts reflected 3 months depreciation on the Holyrood building, following its valuation on 9 January 2005; in 2005-06 a full 12 months is charged. In addition, staff costs have increased by £2.6 million (9%) to £30.3 million (2004-05: £27.7 million).
10. The overall Net Resource Outturn for the financial year was £79 million, being the £85 million net administration cost reduced by an increase in the value of the Holyrood building of £6 million. In 2004-05 the net resource outturn was £158 million, being the £74 million net administration cost plus non-cash expenditure of £84 million relating to the initial write down arising on the valuation of the Holyrood building.
11. The total outturn (resource and capital) was £80 million against a budget of £97 million, an underspend of £17 million, being £15 million resource and £2 million capital. The main reasons for the variance relate to the budgeting and accounting for the Holyrood building:
  - the £6 million increase in the value was not budgeted for as a resource credit
  - the depreciation and cost of capital charge were £8 million lower than budget, as the budget was based on the higher, cost figure for the Holyrood building.
  - £2 million of the capital budget provision was not required

## Statement on Internal Control

12. A Statement on Internal Control was considered by the Audit Committee on 27 October 2006 as part of their consideration of the financial statements. This set out the arrangements operated for risk identification and review, management of identified risks and assurance of effectiveness.
13. We are satisfied that the Statement complies with the relevant guidance in the Scottish Public Finance Manual, the process put in place by the Accountable Officer to obtain assurances on systems of internal control is adequate and the contents of the Statement are not inconsistent with the information emerging from our normal audit work.



## ISA 260: Communication of Audit Matters to Those Charged with Governance

14. Our responsibilities in relation to the communication of audit matters to those charged with governance are covered in International Standard on Auditing 260 and outcomes against the requirements of the Standard were reported in a letter to the Accountable Officer and presented to the Advisory Audit Board on 27 October 2006. In this context, our audit has not identified any unadjusted errors that we need to bring to your attention. Relevant significant judgements and issues arising are recorded below.

### Significant Judgements

15. Key judgements relate to the accounting for the valuation for the Holyrood Building
- The value has been indexed, based on advice from the valuer, resulting in an increase in value of £6 million, which is credited to the Operating Cost Statement. We confirm this is in accordance with guidance.
  - The estimated cost to completion at 31 March 2006 remained at £420 million (04-05: £420 million) and included accrued costs of £15 million (04-05: £20 million) and retentions of £7 million (04-05: £8 million). Progress on completing contracts was slower than anticipated; whereas uncertainty existed about final settlement values, there was no evidence to suggest that the estimated costs to completion were not appropriate. (Subsequently, in February 2007, the Presiding Officer reported that the final cost of the Holyrood project had fallen to £414 million. Revised figures will be reflected in the 2006-07 accounts.)

There are no other significant judgements to draw to attention.

### Issues arising

16. In the final report on the audit for 2004-05 we commented on aspects of the accounting arrangements for the Holyrood building. During the course of the 2005-06 audit we discussed the budgeting and accounting for Holyrood building and agreed with SPCB that it would be helpful to formalise the approach by way of a finance guidance note to ensure clarity on budgeting and accounting implications of activity. (See Appendix B)
17. We welcome the earlier timetable adopted for completion of the accounts and improved delivery and quality of papers supporting the account. The advanced timetable was challenging for SPCB and we encourage further development of arrangements to maintain the momentum of earlier delivery. This





should become easier next year as there will be increased clarity of accounting for the Holyrood building.

# Governance

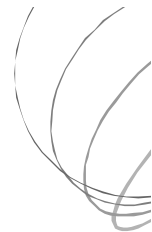
## Introduction

18. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour at the upper levels of an organisation. This section sets out the main findings arising from our review of SPCB corporate governance as it relates to:

- Overview of arrangements
- systems of internal control;
- review of internal audit; and
- follow up of 2004-05 audit.

## Overall Governance Arrangements

19. We discussed with SPCB how we might structure our review of their governance arrangements. We noted the significant developments in corporate governance in the UK in recent years and it was agreed that an appropriate benchmark would be the Langlands Commission report on **“Good Governance Standard for Public Services”**. The Commission’s report identified six core principles of good governance:



20. The review gathered evidence and sought views over the course of the audit. The report reflected the position as at June 2006. We noted that the SPCB operated in a complex corporate governance environment. The focus of the review was corporate governance in the “SPCB”, rather than the broader question of governance in “the Parliament”. However, the relationship between the “SPCB” and “the Parliament” has significant impact on SPCB, which can have implications for governance in the SPCB. The review took these relationships into account where they affect the governance arrangements of the SPCB. The Langlands principles represent important reference points in public sector governance and formed an appropriate framework for the review. However, we recognised that no single model of best practice in corporate governance will necessarily fit exactly with the distinctive position of the SPCB. The main findings of the overview are outlined below. SPCB considered the recommendations of the overview report and formally responded in December 2006. We will follow up developments as part of the 2006-07 audit.

### Key Messages from the corporate governance review

21. The Scottish Parliamentary Corporate Body (SPCB) has developed a sound and comprehensive framework of systems and processes to support its governance arrangements, incorporating many aspects of good practice. This represents good progress over the relatively early years of the new Scottish Parliament and devolution arrangements. The SPCB is committed to evolving its governance arrangements to help meet its aspiration to become an exemplar of good governance in the public



sector. The Corporate Body recognises that there is scope for further development in some areas, taking account of the Good Governance Standard for Public Services published in 2005.

## **Focussing on the organisation's purpose & outcomes**

22. SPCB's purpose is set out in the Scotland Act 1998. The SPCB has introduced strategic and operational planning processes, schemes of delegation and appropriate and agreed protocols, to reinforce its statutory role. The Scotland Act defines the main role\* of the SPCB as "to provide the Parliament, or ensure that the Parliament is provided with, the property, staff and services, required for the Parliament's purposes". However, in law, the SPCB is the legal persona of the Parliament, and the SPCB acts on behalf of the Parliament on a range of matters. \*[Other statutes have placed additional functions on the SPCB, for example, in relation to the Ombudsmen and other Commissioners.]
23. Given the complex organisational environment within which the SPCB operates, there is scope for considering how a sharper definition of its primary responsibilities might be stated, particularly in how it relates to other parts of the overall Parliamentary structure. The SPCB should prepare a statement of primary responsibilities covering not only its role in providing for the Parliament's requirements, but also its more strategic and proactive leadership role on behalf of the wider Parliament.
24. Regular (and publicly available) performance reports are made to and by the SPCB on the progress it is making in meeting its overall aims and objectives. There are plans in place to further develop performance reporting in the light of experience to date, and taking account of both the Good Governance Standard for Public Services, and increasing emphasis on public performance reporting.
25. Feedback mechanisms from stakeholders, staff and visitors are now a routine part of the business process and are used to measure and improve the quality of service.

## **Performing effectively in clearly defined functions and roles**

26. Members of the SPCB are elected in accordance with the Scotland Act and the standing orders of the Parliament. At present, there is no agreed definition of the role of members. The SPCB should specify in writing the role of SPCB members taking appropriate account of the Good Governance Standard for Public Services.
27. The SPCB may wish to consider the roles of the Presiding Officer within the overall structure of the Parliament, and whether any additional checks and balances are necessary within the SPCB to take account of this.



28. The SPCB has put in place a written schedule of delegation that strikes a good balance between matters reserved to the Board and those delegated to staff. There is ample evidence that the SPCB constructively challenges and scrutinises the executive team, without interfering unnecessarily in their day-to-day activities.
29. The portfolio arrangements, involving individual members of the SPCB taking a particular interest in specific business areas, work well and were subject to positive endorsement during the course of the review.
30. The Advisory Audit Board plays a valuable role in terms of risk and audit. Consideration should be given to whether the further use of independent external expertise would be beneficial to the SPCB in enhancing the capacity of the SPCB and contributing to the SPCB's aims in respect of openness and accountability.

### **Promoting and demonstrating corporate values**

31. The SPCB has an agreed set of values that are set out prominently and clearly in its business plan. The values reflect the seven principles for the conduct of people in public life (the Nolan principles), tailored to reflect the business of the Parliament.

### **Informed and open decision making and managing risk**

32. The SPCB has the power to regulate its own procedures and has created procedures that are fit for purpose.
33. The SPCB conducts its business in a transparent and open manner. Papers and minutes are published on the website. The review identified that SPCB members are supplied with accurate, timely and appropriate monitoring information by the Chief Executive and the staff organisation.
34. The SPCB takes a planned and systematic approach to identifying, evaluating and responding to risks, including the operation of risk registers and a statement on internal control supported by assurances.

### **Developing the capacity and capability of the governing body**

35. The Scotland Act prescribes that membership of the SPCB shall be the Presiding Officer and four members of the Parliament appointed in accordance with standing orders. The SPCB should consider how best it can achieve a balance between the statutory position, and the increased emphasis on independent input and scrutiny envisaged in good governance practice. A pre-requisite



for this is having a clear understanding of the role of SPCB members supported by an effective performance monitoring and training requirements for individual members.

## Engaging stakeholders and making accountability real

36. The SPCB has in place processes for dialogue with stakeholders, including individual MSPs and their staff, Government ministers, political parties, committee conveners and members. The SPCB also engages in dialogue with a wide range of external organisations.
37. The SPCB should review its arrangements for engaging in dialogue with stakeholders and consider if there would be advantages in more structured feedback arrangements in order to demonstrate that the views of a range of stakeholders are taken into account by the SPCB in determining its plans and activities.
38. The SPCB should continue to develop arrangements for dialogue with the public, building on these early developments.

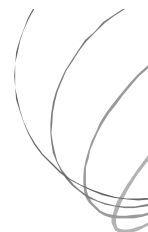
## Systems of Internal Control

39. Our audit plan identified that some of the key financial reconciliations were not straightforward and had caused difficulties previously. During the year we confirmed that these reconciliations were being completed regularly with progress reported to SPCB as part of the Chief Executive's report.
40. As part of our 2005-06 audit we have followed up the previous reviews of IT arrangements to determine whether the agreed recommendations were implemented and improvements introduced. This included an update by our specialist computer audit team in the following areas:
  - Network and Telecommunications review;
  - Overview of user access and Business Continuity of Applications systems;
  - Information Management & Electronic Service Delivery Review.

Overall, progress has been made in most areas, but further progress is required in some cases.

## Review of Internal Audit

41. The SPCB recognises that internal audit is a key element of the internal control system set up by management. A strong internal audit function is necessary to ensure the continuing effectiveness of



the internal control system established. To maximise the reliance that external audit can place on internal audit and to avoid duplication of effort, the adequacy of internal audit is assessed each year.

42. Internal audit is provided by a seconded Head of Internal Audit supported by a contracted in resource from a firm of chartered accountants. We reviewed the operation of these internal audit arrangements. We are pleased to confirm that we are placing reliance on the work of internal audit over the period, as was anticipated in our audit plans. We also confirm that the results of audits are accurately reported in the summary reports submitted to the Advisory Audit Board.

43. We aim to work closely with internal audit to make best use of audit resources. For 2005/6, we planned to place reliance on internal audit in the following areas:

• Cash and banking	• Procurement and Tendering Reviews
• Members' Allowances	• Stock
• Staff Expenses	• Budgetary control
• General Ledger	

44. We reviewed these reports. None of the observations and related risks precluded planned assurance from being taken for our financial statements audit. The other areas examined by internal audit provided assurance in relation to our assessment of corporate governance arrangements.

45. On 27 October 2006 the Head of Internal Audit reported to the Chief Executive/Clerk that his overall conclusion was that a **reasonable level of assurance** can be taken on the adequacy and effectiveness of the systems of internal control in the areas reviewed. However, the report noted the breakdown in control that led to a net financial loss of £26,000 through the fraudulent use of a mobile phone; the report recognized that appropriate corrective action had now been taken to address the control weaknesses identified.

## Follow up of 2004-05 audit

46. During our audit of 2005-06 we followed up issues and developments commented on as part of the previous year's audit. We note that there has been satisfactory progress in relation to the implementation plan arising from the Strategic Review of Finance; and also on the review of finance and corporate systems. We also noted the successful transfer of responsibility for accounts preparation and other aspects of financial administration to the Commissioners and Ombudsman.



# Performance Management

## Introduction

47. This section covers our assessment of the way in which SPCB secures value for money in the use of its resources. We have reviewed SPCB achievement of business priorities and examined:

- Best Value; and
- Efficient Government.

## Achievement of business priorities

48. SPCB board monitor the achievement of their performance against their business priorities and their programme of key developments via the Chief Executive's periodic reports. We note that these reports and the SPCB's annual report record the progress made. More detailed information on performance is monitored at a directorate level.

## Best Value

49. There is a statutory duty of Best Value for local authorities but not in the wider public sector in Scotland (the Scottish Executive and its Executive Agencies, Executive NDPBs, and the NHS). Instead, the Scottish Executive issued high level guidance in May 2003, followed by more detailed draft secondary guidance in August 2003. The Best Value approach can be described as:

- to make arrangements to secure continuous improvement in performance (while maintaining an appropriate balance between quality and cost);
- to have regard to economy, efficiency and effectiveness, and the equal opportunity requirements; and
- to contribute to the achievement of sustainable development.

50. In May 2005, Ministers decided that they would not bring forward legislation which extends Best Value in the wider public sector. However, Ministers do wish to encourage and embed the principles of Best Value across the wider public sector and revised guidance was issued in May 2006.

51. For 2005-06 Audit Scotland reviewed the arrangements in place to demonstrate Best Value across a sample of Central Government organisations, to identify how well-advanced they were and any areas of good practice that could be disseminated. Summary reports were issued to participating organisations in January 2007. The review was based on a diagnostic questionnaire designed to



establish baseline information on the management arrangements in place, with analysis based on the nine characteristics that are considered to underpin the achievement of best value. These are:

- Commitment and Leadership
- Sound Governance at a Strategic and Operational Level
- Accountability
- Sound Management of Resources and Contractual Relationships
- Responsiveness and Consultation
- Use of Review and Options Appraisal
- A Contribution to Sustainable Development
- Equal Opportunities Arrangements
- Joint Working.

52. Initial discussions have taken place on how best to assess SPCB's activity in relation to Best Value. There is significant overlap between the processes underpinning corporate governance and the Best Value characteristics. Aspects of Best Value have therefore been covered in the corporate governance review and we have agreed to follow up this analysis as part of the 2006-07 audit.

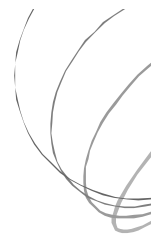
53. The results of the review across the wider public sector are currently under evaluation and will be published by Audit Scotland later this year. We will keep SPCB informed of developments.

## Efficient Government

54. The Efficient Government initiative is a 5 year programme with the aim of reducing waste, bureaucracy and duplication in Scotland's public sector. The primary objective is to deliver the same services with less money or to enable frontline services to deliver more or better services with the same money. The Efficient Government Plan sets targets to achieve £745 million (rising to £900 million) of cash-releasing savings and £300 million (rising to £600 million) of time-releasing savings, by 2007-08.

55. During 2005-06 Audit Scotland completed a diagnostic questionnaire on the management arrangements for Efficient Government activities at a number of Central Government organisations. The questionnaire aimed to provide baseline information on arrangements across a range of Efficient Government related topics. The outcome of this was published in the Auditor General's progress report, 'The Efficient Government Initiative' (December 2006). The SPCB is not subject to the Efficient Government agenda but intends to parallel this, where appropriate. We have discussed with SPCB





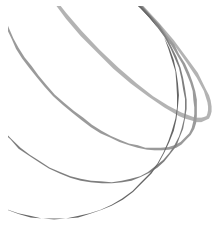
their programme of efficiency reviews and agreed to follow up this aspect in 2006-07 in light of the Auditor General's progress report.

# Appendix A: Outcome on Risks Identified in Audit Plan

## Support to MSPs

Provide effective support to MSPs in undertaking their parliamentary functions including: participating in parliamentary business and representing their constituents

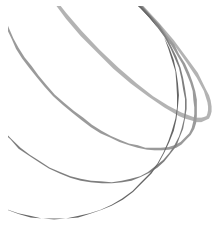
Risk	Management assurances	Planned audit action	Outcome
<p>Risks to outcomes associated with failure to provide key services (e.g. ICT services) and/or Members being dissatisfied with the services provided.</p>	<p>SPCB are pro-active in obtaining and acting on feedback from MSP's, including surveys, relationship managers and the SPCB portfolio arrangements; and have a local office project underway. Business continuity arrangements in place.</p>	<p>Interface with Members will be examined as part of corporate governance review. We will review business continuity arrangements. We will track management assurances.</p>	<p>Arrangements for interface with Members, including portfolio arrangements appear to work well. A Business Continuity Management project is underway. A consultative scoping study was carried out and will be followed by development of a Business Continuity strategy and preparation of a Business Continuity plan.</p>



## Participation and awareness

Deliver the opportunity for participation in parliamentary business and activities. Promote and increase awareness and understanding of the Parliament throughout Scotland, and in the UK, Europe and other parts of the world.

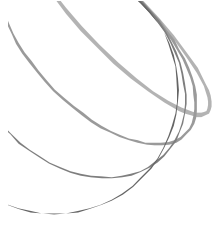
Risk	Management assurances	Planned audit action	Outcome
<p>Risks to outcomes associated with a poor visitor experience; lack of accessibility; and negative media coverage.</p>	<p>SPCB are pro-active in obtaining and acting on feedback from visitors; assessing the (need for) provision of facilitating and support services; and apply a communication strategy which encompasses media coverage.</p>	<p>Our review of corporate governance will touch on aspects of this area, in particular the arrangements in place to interface with the wider public. No other specific audit examinations are planned for 2005/6 but we will track management assurances.</p>	<p>Accessibility is a strength. Feedback from visitors sought and acted upon.</p> <ul style="list-style-type: none"> <li>The SPCB is reviewing the various ways the Parliament engages with the different sectors of Scottish society.</li> </ul>



## Efficient and effective organisation

Continue to improve the efficiency and effectiveness of the organisation with a skilled, experienced and motivated workforce and robust corporate and financial governance arrangements.

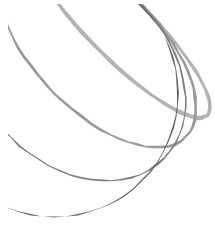
Risk	Management assurances	Planned audit action	Outcome
<p>Risks to outcomes associated with workforce, corporate and financial issues.</p>	<p>Strategies and processes in place, covering Human Resources, financial planning and monitoring, procurement and knowledge management. Also, contingency planning arrangements and a programme of efficiency reviews to demonstrate savings in relevant areas.</p>	<p>The Corporate Governance review will confirm the arrangements for planning, financial management and performance management. Internal audit's programme of reviews together with external audit work on controls and the accounts are further sources of assurance. We will also follow up previous year issues.</p>	<p>The Corporate Governance overview confirmed that SPCB operated in a complex environment for governance; had developed many of the arrangements expected; but with scope for improvement in certain areas. Other external and internal audit work also provided assurance in this area.</p>



## Maximise the effective use of the Parliament Building

**Ensure the Holyrood building: Is managed to provide all users with a safe, secure working environment; functions effectively as a Parliament building; and its benefits are fully maximised.**

Risk	Management assurances	Planned audit action	Outcome
<p>Risks to outcomes associated with:</p> <ul style="list-style-type: none"> <li>• failure of facilities management arrangements</li> <li>• failure of safety or security arrangements.</li> </ul>	<p>Facilities management processes and review arrangements. Planned preventative maintenance system in place. Health &amp; Safety strategy in place. Security strategy and systems in place. Business continuity arrangements in place.</p>	<p>Review of internal audit exercise on estates management together with follow up work on previous external audit work on business continuity.</p> <p>Confirm regular review of Health &amp; Safety issues by SPCB and management team.</p>	<p>The timing of the internal audit exercise was changed to accommodate an internal review. Facilities Management reported performance against service levels monthly, demonstrating that they are achieving most of their targets. The Business Continuity Management project is underway as detailed in "Support to MSPs" section.</p> <p>There is regular reporting of Health and Safety issues at each team meeting and a review at Senior Management meetings.</p>



## Risks arising in relation to the audit of the financial statements

To establish there is sufficient, relevant, reliable evidence that the financial statements present a true and fair view; and that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and relevant guidance.

Risk	Management assurances	Planned audit action	Outcome
<p><b>Valuation of the Holyrood building:</b> Issues identified for follow up: Outturn on the capital costs accrued in accounts Possible change in guidance re inclusion of finance costs Structure of fixed asset register records.</p>	<p>Monitoring in place and necessary action will be taken, discussing with auditors as appropriate. Advisory Audit Board have asked for a follow up of issues arising from the internal audit review of the fixed asset register. Management will provide a paper that maps out sources of assurance on perceived risks.</p>	<p>Follow up as part of audit procedures.  Liaise with relevant staff on paper prior to submission. (Completed)</p>	<p>Outturn on capital costs is stable; sufficient audit evidence obtained. RICS- HM Treasury review of guidance is underway, which may feed into the accounting policy for valuing the Holyrood building. However, change unlikely before 2007-08, as retrospection is not usual. SPCB has confirmed that they will maintain records for both historic costs and valuation for the Holyrood building.</p>
<p><b>Year-end reconciliations:</b> certain reconciliations are complex/ involved and while satisfactory for 31.3.05 have caused difficulties previously.</p>	<p>Being monitored in-year to ensure that year-end position can be readily reconciled.</p>	<p>Track management assurances.</p>	<p>During the year we confirmed that these reconciliations were being completed regularly with progress reported to SPCB as part of the Chief Executive's report. Year end reconciliations were satisfactory.</p>
<p>There is a <b>new Financial Reporting Manual</b> which provides guidance on accounting policies and disclosures for central government accounts, in particular the inclusion of an Operating and Financial Review and a Remuneration Report for the first time.</p>	<p>Review of guidance planned. Consideration will be given to the need for any change to existing policies and disclosures.</p>	<p>Track management assurances.</p>	<p>The account complies with the new requirements of the Financial Reporting Manual.</p>

# Appendix B: Action Plan: Recommendations for Further Improvements

Action Point	Para. No	Issue, Risk and Audit Recommendation	Management Response	Responsible Officer	Target Date
1	16	<p>The Holyrood building has been completed and decisions taken on the basis of valuation. SPCB are now having to account for physical activity (maintenance, replacement, etc) and movements in valuation (indices, valuations, guidance, etc). In order to ensure clarity on the implications of this it would be helpful to formalise the approach to be adopted. This would promote consistency and minimize the risks of inappropriate assumptions on the resource budget implications.</p> <p><i>We recommend SPCB prepare a Finance Guidance Note on accounting (and budgeting) for Holyrood building</i></p>	<p>In October 2006 SPCB discussed with Audit Scotland the capitalisation policy for future expenditure on the Holyrood building and the basis for indexation and valuation movement and these proposals were subsequently presented to the Advisory Audit Board on 27 October 2006. The AAB endorsed these proposals.</p> <p>The proposals will now be updated into Standing Financial Instructions.</p>	Financial Controller	Principles agreed Standing Financial Instruction to be issued by 30 June 2007

Audit Scotland  
Osborne House  
1/5 Osborne Terrace  
Edinburgh EH12 5HG

Telephone  
0845 146 1010  
Fax  
0845 146 1009

[www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)