



INFRASTRUCTURE, GOVERNMENT &
HEALTHCARE

Risk Management Authority

Annual audit report to the Risk
Management Authority and the
Auditor General for Scotland
2007-08

16 June 2008

AUDIT

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Notice: About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ('the Code'). This report is for the benefit of only the Risk Management Authority and is made available to Audit Scotland (together the beneficiaries), and has been released to the beneficiaries on the basis that wider disclosure is permitted for information purposes but that we have not taken account of the wider requirements or circumstances of anyone other than the beneficiaries.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scope and objectives section of this report.

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Executive summary

This report summarises our work for 2007-08 and our findings in relation to our audit of the Authority's financial statements, corporate governance and performance management arrangements.

Financial statements

On 16 June 2008 we issued an audit report expressing an unqualified opinion on the financial statements of the Authority for the year ended 31 March 2008 and on the regularity of transactions reflected in those financial statements.

- The 2007-08 FReM allows non-property assets to be carried at depreciated historical cost as a proxy for fair value for assets that have short useful lives and/or low values. In line with guidance from the Scottish Government, the Authority changed its accounting policy to carry such assets at depreciated historical cost. The Authority has restated its comparative information as result of this change in accounting policy, in line with FRS 3.
- The Authority is currently in negotiation over the lease on its current accommodation, the outcome of which may impact on the current carrying value of leasehold improvements. A contingent liability in respect of lease dilapidations has been disclosed in the accounts.
- The Authority is currently subject to a sexual discrimination claim against it, for which legal advice has been sought and acted upon.

Corporate governance

We considered corporate governance arrangements as they relate to systems of internal control, the prevention and detection of fraud and irregularity, standards of conduct and arrangements for the prevention and detection of corruption, and its financial position.

- The statement of internal control does not disclose any significant weaknesses in the Authority's systems of internal control. The content of the statement is consistent with our understanding.
- Procedures are in place to ensure discussion of key guidance from the Authority's Scottish Government sponsor division, as well as other relevant laws and regulations.
- The Authority's expenditure for 2007-08 was within its allocation with its budgetary provision for the year reduced in agreement with its sponsor division when it became apparent these would not be spent.
- The Authority is currently subject to review by a steering group which is expected to provide a number of options to the Scottish Ministers on the future of the Authority. These options include retaining the status quo, integrating the functions into an existing body or department or expanding the remit of the organisation. Management are confident, that given the timetable for this review, the Authority will remain a going concern for at least 12 months from the signing of the financial statements.

Performance management

As outlined on our agreed audit plan for the year, no specific performance audit work was required to be undertaken during the year. We note that the Authority intends to complete an updated Best Value self-assessment in 2008-09.



Introduction

Audit framework

This year was the second of our five-year appointment by the Auditor General for Scotland as external auditors of the Risk Management Authority (“the Authority”). This report to the Authority and Auditor General provides our opinion and conclusions and highlights significant issues arising from our work.

In accordance with Audit Scotland’s Code of Audit Practice (“the *Code*”) the scope of the audit was to:

- provide an opinion on the Authority’s financial statements and the regularity of your transactions;
- review and report on:
 - your corporate governance arrangements as they relate to: your review of systems of internal control; the prevention and detection of fraud and irregularity; standards of conduct, and prevention and detection of corruption; and your financial position
 - the Authority’s arrangements to achieve Best Value
 - other aspects of your arrangements to manage performance, as they relate to economy, efficiency and effectiveness in the use of resources.

The framework under which we operate under appointment by Audit Scotland was outlined in the audit plan discussed with the Authority’s audit committee.

Responsibilities of the Authority and its auditors

External auditors do not act as a substitute for the Authority’s own responsibilities for putting in place proper arrangements to account for its stewardship of resources made available to it and its financial performance in the use of those resources, to ensure the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the effectiveness of those arrangements and, through accountable officers, to make arrangements to secure Best Value.

This report is structured around the headings financial statements audit, governance arrangements and performance management arrangements.

Acknowledgement

We wish to record our appreciation of the continued co-operation and assistance extended to us by your staff.

Financial statements audit

- We have issued an unqualified opinion on the financial statements.
- The 2007-08 FReM allows non-property assets to be carried at depreciated historical cost as a proxy for fair value for assets that have short useful lives and/or low values. In line with guidance from the Scottish Government, the Authority changed its accounting policy to carry such assets at depreciated historical cost. The Authority has restated its comparative information as result of this change in accounting policy, in line with FRS 3.
- The Authority is currently in negotiation over the lease on its current accommodation, the outcome of which may impact on the current carrying value of leasehold improvements. A contingent liability in respect of lease dilapidations has been disclosed in the accounts.
- The Authority is currently subject to an equal pay claim against it, for which legal advice has been sought and acted upon.

Reporting arrangements and timetable

The financial statements audit of the Authority commenced on 31 April 2008 at which point appropriate working papers and records were made available. Draft financial statements were available for audit on 8 May 2008 with full narrative sections provided on 22 May 2008. This allowed for the timely completion of the audit and consideration of the financial statements by the audit committee on 3 June 2008 and approval thereafter by the accountable officer.

Audit opinion

On 16 June 2008 we issued an audit report expressing an unqualified opinion on the financial statements of the Authority for the year ended 31 March 2008 and on the regularity of transactions reflected in those financial statements.

Indexation of fixed assets

The 2007-08 Financial Reporting Manual allows non-property assets to be carried at depreciated historical cost as a proxy for fair value for assets that have short useful lives and/or low values. Guidance was received from the Scottish Government recommending that such assets should no longer be subject to indexation but held at historic cost. As a result, the Authority changed its accounting policy to account for such assets at depreciated historical cost, with prior year comparative information restatement as a result of this change in accounting policy, in line with FRS 3.

Litigation and claims

Enquiries with management highlighted an ongoing legal dispute in relation to a sexual discrimination claim. The Authority has consulted with its lawyers on this matter and accounted for it according to their advice within the financial statements.



Property lease

In response to the uncertainty over the future of the Authority, management exercised their right to terminate the lease agreement with the Scottish Government for their accommodation. Subsequent discussions and developments, including agreement of the 2008-09 business plan and instruction to draft a new 3 year corporate plan, have resulted in a reconsideration of this decision. Management intend to renegotiate the lease to remain in their current accommodation. Should these discussions prove unfruitful or a decision be taken to close the Authority, leasehold improvements currently held on the balance sheet will require to be written off through accelerated depreciation over the remaining life of the tenancy or immediately if a decision is taken to exit the premises. The Authority has, however, disclosed a contingent liability in respect of lease dilapidations.

Corporate governance

- The statement of internal control does not disclose any significant weaknesses in the Authority's systems of internal control. The content of the statement is consistent with our understanding.
- Procedures are in place to ensure discussion of key guidance from the Authority's Scottish Government sponsor division, as well as other relevant laws and regulations.
- The Authority's expenditure for 2007-08 was within its allocation with its budgetary provision for the year reduced in agreement with its sponsor division when it became apparent these would not be spent.
- The Authority is currently subject to review by a steering group which is expected to provide a number of options to the Scottish Ministers on the future of the Authority. These options include retaining the status quo, integrating the functions into an existing body or department or expanding the remit of the organisation. Management are confident, that given the timetable for this review, the Authority will remain a going concern for at least 12 months from the signing of the financial statements.

Introduction

Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviour. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all bodies.

Through its chief executive, the Authority is responsible for establishing arrangements for ensuring the proper conduct of its affairs, including compliance with relevant guidance, the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. The *Code* requires auditors to review and report on the Authority's corporate governance arrangements as they relate to:

- the Authority's reviews of its systems of internal control, including its reporting arrangements;
- the prevention and detection of fraud and irregularity;
- standards of conduct and arrangements for the prevention and detection of corruption; and
- its financial position.

Corporate governance framework

The Authority's corporate governance framework was established in line with the management statement and associated financial memorandum with the Scottish Government. The management statement sets out the broad framework within which the Authority should operate, although it is not legally binding, and details the responsibilities and accountabilities of The Scottish Ministers, the chair of the Authority and the Authority's Accountable Officer. The financial memorandum sets out financial provisions in greater detail.

The Ethical Standards in Public Life etc. (Scotland) Act 2000 required the implementation of a code of conduct for board members, outlining their responsibilities. In line with the model code, the Authority's code contains rules of conduct on:

- general conduct;
- registrations of interests;
- declaration of interests;
- lobbying and access to members of public bodies; and
- political activity.

A register of interests of members is maintained and is made available for review on the Authority's website.

We considered the Authority's corporate governance arrangements, which, combined with that of internal audit, has concluded that, the corporate governance framework has been designed and implemented appropriately.

Statement on internal control

The statement on internal control for 2007-08 provides details of the processes and controls and management highlights that the organisation is committed to a process of continuous development and improvement and to developing systems in response to any relevant reviews and developments in best practice.

We are satisfied that the statement complies with the Scottish Government guidance, that the processes put in place by the accountable officer to obtain assurances on the system of internal control are adequate, and that the contents of the statement are consistent with the information emerging from our normal audit work.

Risk management

The Authority has delegated authority for establishing and monitoring arrangements to the audit committee. The Authority has a risk management strategy and risk register in place which was reviewed by the audit committee in December 2007. The strategy includes the roles and responsibilities for the creation and maintenance of a risk register.

Internal audit noted "risk management and business planning processes were considered sound and well evidenced" in their 2007-08 annual report. Our review of the identified risks found these to be appropriately identified and acted upon.

Internal audit

The Authority obtained its internal audit service for 2007-08 from Communities Scotland. This service provision has now ceased and for 2008-09 the Authority will require to obtain internal audit services from another provider. Internal audit reported that there were "no matters arising from the internal audit reports which would require to be raised specifically in the Authority's statement on internal control".



In conducting our work for the year, we have given due consideration to the findings of internal audit, while conducting the testing we required to support our audit opinion.

Prevention and detection of fraud and irregularity

The Authority has approved a fraud policy. The content of the policy meets the requirements and identifies specific responsibilities for the prevention and detection of fraud. The Authority has also approved its public interest disclosure reporting policy in order to comply with the requirements of the Public Interest Disclosure Act 1998.

Regularity

There are no issues arising from the regularity audit. We have reviewed the minutes of the Authority's key committees, including the board and audit committee meetings. From these minutes, we have established that the Authority has procedures in place to ensure discussion of key guidance from the Authority's Scottish Executive sponsor division, as well as other relevant laws and regulations. We have obtained management representations from the accountable officer that during 2007-08 the Authority has complied with all necessary laws and regulations.

Financial position

The financial results for the year report that all expenditure during 2007-08 was within the agreed budgetary provision of £1,500,000 for the year. This was reduced to £1,142,000 in agreement with the sponsor department with an additional £250,000 carried forward from 2006-07. The reduction in the budgetary provision was primarily due to:

- the Risk Assessment Framework Screening Tool budgeted at £100,000 not being commissioned; and
- a delay in payments of £133,906 for contracts which have been carried forward into 2008-09 in line with contractual agreements.

The total net assets of the Authority at 31 March 2008 amounted to £230,000. This comprises fixed assets of £135,000, and net current assets of £95,000. Cash balances of £310,000 held in the Office of HM Paymaster General are held principally to make payment for creditors and accruals of £219,000.

Going concern

On 30 January 2008, the First Minister announced that the role of the Authority would be subject to review. Subsequently a steering group was formed which is expected to provide a number of options to the Scottish Ministers including the status quo, integrating the functions into an existing body or department or expanding the remit of the organisation. Management are confident, that given the timetable for this review, the Authority will remain a going concern for at least 12 months from the signing of the financial statements.

Performance management

- The Authority intends to complete a Best Value self-assessment exercise during 2008-09.

Best Value

The Authority began a Best Value self-assessment in 2006-07 against the nine core principles of Best Value. Due to staff resourcing issues this process was put on hold. A limited assessment of processes was undertaken during 2007-08 and some improvements reported. The Authority intends to complete the Best Value self-assessment during 2008-09 and establish plans for future improvement.

2008-09 onwards

Audit Scotland has been committed to extending the Best Value audit regime across the whole public sector for some time now, with significant amounts of development work having taken place during the last year. Using the Scottish Government's nine best value principles as the basis for audit activity, five areas have been selected as priority development areas (use of resources, governance and risk management, accountability, review and option appraisal, and joint working).

The focus of this work in 2008-09 will be on the use of resources, including efficiency, information management, procurement, asset management, performance management and people management. While Audit Scotland is currently developing a series of toolkits for use by auditors from 2008-09 onwards, due to the scale of the Commission's activities it is unlikely that these will be mandatory for application on the Commission audit. We will, however, continue to liaise with management over the arrangements of the Commission ensures that appropriate focus and resources are available to develop and secure Best Value.

