

Scottish Parliamentary Corporate Body

Report on the 2007/08 Audit

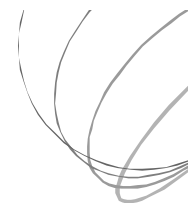


November 2008



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Executive Summary

Introduction

Our audit was based on understanding the key strategic and financial risks being faced by the Scottish Parliamentary Corporate Body (SPCB). We audited the financial statements and we also reviewed relevant aspects of governance and performance. This report sets out our key findings.

Financial Statements

We have given an unqualified audit opinion on the financial statements of the SPCB for 2007/08. We have also concluded that in all material respects, the expenditure and receipts shown in the financial statements were incurred or applied in accordance with applicable enactments and relevant guidance.

Financial Position

The SPCB Operating Cost Statement records a net administration cost for the financial year of £88.5 million, an increase of £1.6 million or 1.8% from 2006/07. The overall outturn for the year was within Budget Act limits.

In November 2007 the Finance Committee of the Scottish Parliament considered the SPCB's budget bid for 2008-09 of £101 million, covering both capital and revenue. This represented an increase of 2.8% over the 2007-08 budget at that time and has been approved as part of the Budget Act 2008.

Governance

Corporate governance is concerned with the structures and processes for decision making, accountability, control and behaviour at the upper levels of an organisation. Overall the corporate governance and control arrangements for the SPCB operated satisfactorily during the year, as reflected in the Statement on Internal Control.

Work is underway to develop a new Strategic Plan for 2009/10 and to implement a Corporate Change Programme. These initiatives are intended to strengthen the links between planning, risk management, performance and budgeting, and will impact on senior management roles and organisational structures. We will monitor the impact of these developments on governance arrangements as part of the 2008/09 audit.

We undertook a review of the SPCB's arrangements for budgetary control, which recognised the significant development of arrangements for budget preparation and monitoring over recent years. We concluded that arrangements were well embedded and follow a well defined process and timetable.

The operation of an efficient and effective internal audit function forms a key element of governance and stewardship. We reviewed the SPCB's internal audit function and concluded that it continues to comply

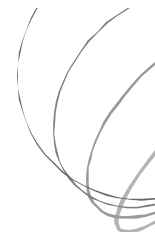
with Government Internal Audit Standards and that we are able to place reliance on their work for the purposes of our audit.

Looking forward

The final part of our report notes some challenges for the SPCB going forward. In particular, the Corporate Change Programme will impact on future governance arrangements and the implementation of international financial reporting standards (IFRS), starting with 'shadow accounts' for 2008/09, may require significant resource to complete.

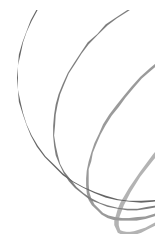
The assistance and co-operation given to us during our audit is gratefully acknowledged.

Audit Scotland
November 2008



Introduction

1. This report summarises the findings from our 2007/08 audit of the Scottish Parliamentary Corporate Body (SPCB). The scope of the audit was set out in our Audit Plan, which was presented to the Advisory Audit Board on 15 April 2008 and updated following discussions with the Board. The Audit Plan described the work we planned to carry out, the primary focus being an audit of the financial statements and review of the SPCB's arrangements for governance and internal control.
2. The contents of this report have been agreed with relevant officers to confirm factual accuracy. We would like to take this opportunity to express our appreciation for the assistance and co-operation provided by the officers of the SPCB during the course of our audit. This report will be submitted to the Auditor General for Scotland and will be published on our website, www.audit-scotland.gov.uk.



Financial Statements

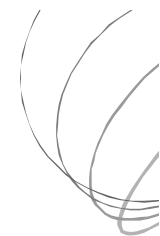
3. In this section, we summarise key outcomes from our audit of the SPCB's financial statements for 2007/08, and comment on the key financial management and accounting issues arising. The financial statements are an essential means by which the organisation accounts for its stewardship of the resources available and its financial performance in the use of those resources.

Our responsibilities

4. Our audit plan sets out our responsibilities in detail. In summary, we audit the financial statements and give an opinion on:
 - whether they give a true and fair view of the financial position of the SPCB and its expenditure and income for the period in question;
 - whether they and the part of the Remuneration Report to be audited were prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements;
 - the consistency of the Management Commentary with the financial statements; and
 - whether, in all material respects, the expenditure and receipts are regular (comply with statutes and guidance).
5. We also review the statement on internal control by:
 - considering the adequacy of the process put in place by the Clerk to the Parliament and Chief Executive, in his role as Principal Accountable Officer, to obtain assurances on systems of internal control;
 - assessing whether disclosures in the statement are consistent with our knowledge of the SPCB.

Overall conclusion

6. We have concluded that the financial statements give a true and fair view of the state of affairs of the SPCB as at 31 March 2008.



7. We have also concluded that:

- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with the Public Finance and Accountability (Scotland) Act 2000 and directions made thereunder by Scottish Ministers;
- information which comprises the Management Commentary is consistent with the financial statements;
- the expenditure and receipts shown in the financial statements were incurred or applied in accordance with any applicable enactments or guidance issued by the Scottish Ministers, the Budget (Scotland) Act covering the financial year and sections 4 to 7 of the Public Finance and Accountability Act (Scotland) 2000; and
- the sums paid out of the Scottish Consolidated Fund for the purposes of meeting the expenditure shown in the financial statements were applied in accordance with section 65 of the Scotland Act 1998.

8. In line with agreed plans, draft accounts were submitted for audit on 11th July 2008 with supporting schedules provided shortly after. We were pleased with the standard of working papers to support the draft accounts and the related management review processes. The draft accounts and the outcome of the audit were considered by the Advisory Audit Board (AAB) on 1 October 2008, with the accounts presented to the Corporate Body at their meeting on 29 October 2008 and signed by the Principal Accountable Officer later that day.

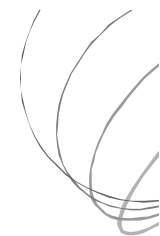
9. All significant errors or misstatements identified during the audit process were adjusted for in the final accounts. The AAB has indicated that it would be helpful if SPCB finance staff provided details of adjustments to the draft accounts over the period of the audit process. While this should not involve a significant extra effort, it represents a change in practice and there would be merit in agreeing the practical arrangements for recording and reporting adjustments at an early stage.

Financial Position

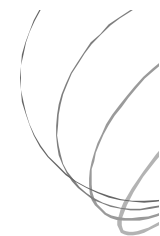
Outturn 2007/08

10. The SPCB's net outturn on capital and revenue was £88.7 million, £8.0 million below the overall limit of £96.7 million authorised by the Budget Act following the Spring revision. This comprised:

- an outturn on net administration costs of £88.5 million;



- a prior period adjustment of £0.9 million relating to a change in the accounting policy for short term employee benefits;
 - a £1.9 million reduction in the estimated final cost of the Holyrood building; and
 - £1.2 million capital expenditure.
11. Net administration costs for the financial year were £88.5 million, an increase of £1.6 million or 1.8% from 2006/07. Members and staff costs increased by £1.8 million (5.8%) to £33.0 million, largely due to resettlement grants for MSPs and ministerial severance payments brought about by the May 2007 election. Other administration costs were £49.9 million (2006/07: £50.5 million), a decrease of 1.2%. Within this MSP allowances were £9.7 million in both the current and previous year and there were marginal percentage increases in utilities and other accommodation costs, offset by lower costs in other expenditure items and non-cash items. The final main category within administration costs relates to the funding of the Ombudsman and Commissioners. The outturn in this area was £6.3 million (2006/07: £5.8 million) an increase of £0.5 million, or 8.6%.
12. The prior period adjustment of £0.9 million arises from accrual of the costs for employee short term benefits (untaken holiday leave and flexi working balances). The change arises from the early adoption of an accounting policy that will be mandatory under International Financial Reporting Standards to be introduced from 2009/10. In accordance with Parliamentary accountability requirements, this is included as a charge against the 2007/08 resource budget, but is not a charge against administration costs for the year.
13. Also, the accounts record reductions in the estimated final costs of the Holyrood building, with £1.9 million (2006/07: £5.0 million) being credited to the Operating Cost Statement as an exceptional item.
14. The net assets of the SPCB increased by £6 million over the year to £336 million. Fixed assets increased by a net £2 million, largely due to increases in valuation indices; current assets remained level at £4 million; and liabilities reduced by £4 million, mainly reflecting a reduction in capital creditors and retentions. This was represented by an increase in the revaluation reserve of £12million, offset by a reduction in the general fund of £6 million.
15. Although not directly reflected on the balance sheet, information on the MSPs' pension scheme is disclosed by way of a note to the accounts. This records a significant improvement in the financial position, with a shortfall of assets in the Fund at 31 March 2008 of £1.3 million, a significant reduction from the £4.9 million shortfall at 31 March 2007. This comprises Scheme liabilities estimated by the Actuary at £21.0 million as at 31 March 2008, with the value of the related pension fund at that time of £19.7 million (2006/07: liabilities £23.4 million; assets £18.5 million).



16. The actuarial estimate of the annual cost of pensions is £3.9 million, up from £3.0 million in 2006/07. This contrasts with the annual employer's contributions from the Scottish Consolidated Fund of £1.5 million (2006/07 £1.5 million). The difference reflects the Actuary's assumption that the long term investment yield will be higher than the current market yield of 3.1%. The charge recorded in the SPCB accounts is the contributions, although in other organisations the annual pension charge is based on the actuarial estimate of the annual cost (£3.9 million). Current treatment of pension costs within the SPCB accounts may need to be re-evaluated in light of the changes to the legislative position of the Scheme that are underway.

2008/09 Budget

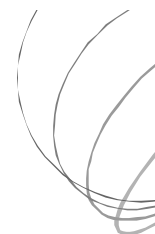
17. In November 2007 the Finance Committee of the Scottish Parliament considered the SPCB's budget bid for 2008-09 of £101 million, covering both capital and revenue. This represented an increase of 2.8% over the 2007-08 budget at that time and has been approved as part of the Budget Act 2008. The Committee noted the explanations provided for the various changes from the position for 2007-08 and, in particular, encouraged the SPCB to continue its rigorous approach to the review of the budgets of Parliamentary Commissioners and Ombudsman, which must balance a robust scrutiny and challenge of budget assumptions with recognising and respecting the operational independence of the various office-holders.

Issues arising from the audit of the financial statements

18. International Standard on Auditing (ISA) 260 requires auditors to report certain matters arising from the audit of the financial statements to 'those charged with governance' prior to the accounts being signed. We reported in the terms of ISA 260 to the Chief Executive and members of the Advisory Audit Board in October 2008. We are pleased to confirm that there were no significant issues or concerns that merit inclusion in this report.

Regularity assertion

19. The Public Finance and Accountability (Scotland) Act 2000 imposes a responsibility on auditors that requires us to certify that, in all material respects, the expenditure and receipts shown in the accounts were incurred or applied in accordance with applicable enactments and guidance issued by the Scottish Ministers. We have addressed the requirements of the regularity assertion through a range of procedures, including written assurances from the Principal Accountable Officer as to his view on adherence to enactments and guidance. No significant items were identified for disclosure.



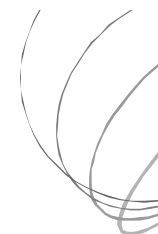
Governance

Overview of arrangements

20. This section sets out our main findings arising from our review of the SPCB's governance arrangements. Below we comment on:
- governance arrangements;
 - key systems of internal control;
 - internal audit;
 - aspects of information and communications technology (ICT).
21. We also discharged our responsibilities as they relate to the prevention and detection of fraud and irregularity, standards of conduct and the organisation's financial position (see paragraphs 10 to 16). Our overall conclusion is that arrangements within the SPCB are sound and have operated through 2007/08.

Statement on Internal Control

22. The Statement on Internal Control provided by the SPCB's Accountable Officer reflected the main findings from both external and internal audit work. The statement recorded management's responsibility for maintaining a sound system of internal control and set out the SPCB's approach.
23. We are satisfied that the Statement complies with the relevant guidance in the Scottish Public Finance Manual; the process put in place by the Principal 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.
24. Following updated guidance on audit committees, practice is evolving with some committees planning to take a more explicit role in reviewing the assurances obtained by the relevant Accountable Officer in support of the Statement on Internal Control. The timing of the SPCB's certificate of assurance process is geared towards the signing of the accounts rather than the meeting of the AAB which considers the accounts. The AAB and the Principal Accountable Officer may wish to consider the existing arrangements in light of evolving practice.



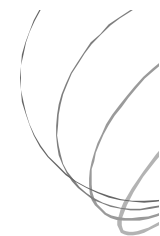
Governance arrangements

25. In 2006 we conducted a review and evaluation of the governance arrangements of the SPCB, based on the Good Governance Standard for Public Services (Langlands Commission). The SPCB responded positively to the review, considering the issues raised and planning actions to further develop arrangements as appropriate. During the current year Internal Audit reviewed recent developments, including progress on our recommendations made in 2006.
26. Internal Audit's report highlights plans for the further development of key performance indicators (KPIs) for core services and enhancements to the SPCB's approach to risk management. The SPCB's new strategic planning process aims to strengthen the links between planning, risk, performance and budgeting for core services. Work is underway on this, with the new strategic plan to be in place in 2009/10.
27. Internal Audit also noted the potential impact of the Corporate Change Programme, which was ongoing at the time of the report being written, on senior management roles and the related organisational structures and arrangements. In early November, the SPCB made an announcement on this aspect of the work of the Corporate Change Programme, indicating that the new arrangements proposed should be in place by 1 April 2009.

Systems of internal control

Budgetary control

28. As part of our 2007/08 audit, we undertook a review of high level (managerial) controls, concentrating on budgetary control as a key element in providing assurance on the financial accounts and financial management more generally. We conducted interviews with the Chief Executive and the head of each directorate. We also reviewed various briefing papers, management reports and budget monitoring reports.
29. We found that there has been significant development of arrangements for budget preparation and monitoring over recent years. We concluded that:
 - budget setting arrangements appear to be well embedded and follow a well defined process and timetable;
 - arrangements for monitoring expenditure against budgets are well established at office and director level, with regular meetings taking place with business support accountants;



- the Chief Executive reports regularly to the SPCB, including a standing item on performance against budgets;
- there is scope to strengthen the link between organisational objectives and key performance indicators (KPIs). This point was also highlighted by Internal Audit in their follow up review of corporate governance arrangements.

Scottish Government central systems

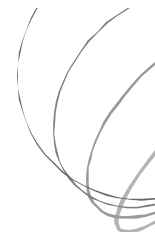
30. SPCB's main financial accounting system is provided by the Scottish Government and we relied on the work of the Scottish Government external audit team to assess the effectiveness of central aspects of key internal controls. The Scottish Government auditors concluded that adequate assurance could be taken from the key controls in the main financial accounting system.

Internal Audit

31. The establishment and operation of an effective internal audit function forms a key element of effective governance and stewardship. We therefore seek to rely on the work of internal audit wherever possible and, as part of our risk assessment and planning process for the 2007/08 audit, we concluded that we could place reliance on the SPCB's internal audit function.
32. We work closely with internal audit to make best use of audit resources. For 2007/08, we placed reliance on the work of internal audit in the following areas:

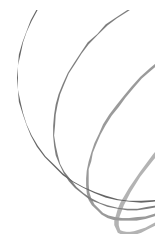
Holyrood Final Accounts	General Ledger
Asset Management	Purchases and Payments
Cash Controls	

33. The Head of Internal Audit reported to the Chief Executive/Clerk that his overall conclusion was that a **strong** level of assurance can be taken on the adequacy and effectiveness of the systems of internal control in the areas reviewed.



Information and Communication Technology

34. During 2007/08 we followed up our previous report on computer services. Overall the SPCB has made good progress on planned actions, with all interim actions implemented and progress made towards completion of the three key projects in Information Security Management, the Information Management Strategy and IT Service Management.



Looking Forward

35. The SPCB faces a number of challenges in 2008/09, which include:

- **International Financial Reporting Standards (IFRS)** – the transition to IFRS commences in 2008/09, with a timetable that requires the SPCB to prepare a re-stated IFRS opening balance sheet as at 1 April 2008, followed by full “shadow” IFRS accounts for 2008/09, in addition to the statutory accounts under the existing framework. This process may require significant resource to complete and it will be important that restatement is tackled early, with a plan in place to manage the transition.
- **Data handling** – in response to failures in UK government bodies’ procedures and practices during 2007, the Scottish Government carried out a review of data handling arrangements in Scotland. The review considered current policies and procedures in data protection, consistency with government standards and local arrangements for implementation of procedures. An interim report published in April 2008 made some initial recommendations and a final report was published in June 2008. It is also likely that the Financial Reporting Manual (FRoM) will be updated to require the Statement on Internal Control to comment on data handling arrangements. We will liaise with SPCB on these developments during 2008/09.
- **The Scottish Commission for Human Rights (SCHR)** is expected to become operational in 2008/09, following the appointment of an Accountable Officer. Among other considerations, the SCHR will require separate accounting and auditing arrangements and we welcome the opportunity to discuss arrangements with the SPCB.
- **Corporate Change Programme** – work is underway to develop a new Strategic Plan for 2009/10 and to implement a Corporate Change Programme. These initiatives will impact on future governance arrangements and, as with any change programme, will require to be carefully managed to avoid any adverse impact on ‘business as usual’.

Audit Scotland
November 2008