



INFRASTRUCTURE, GOVERNMENT AND HEALTHCARE

Risk Management Authority

Annual audit report to the Risk Management Authority and the Auditor
General for Scotland
Year ended 31 March 2009

18 September 2009

AUDIT

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- Executive summary
- Introduction
- Financial statements
- Use of resources
- Governance and accountability
- Performance
- Action plan

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.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the beneficiaries) for any purpose or in any context. Any party other than the beneficiaries that obtains access to this report or a copy and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the beneficiaries.

Financial statements

On 18 September 2009 we issued an audit report expressing an unqualified opinion on the financial statements of the Authority for the year ended 31 March 2009 and on the regularity of transactions reflected in those financial statements.

The Authority continues to disclose a contingent liability in respect of potential lease dilapidations, which will require to be reviewed in 2009-10 following management's decision on future accommodation arrangements.

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.

Use of resources

The financial outturn was an underspend of £263,000 against the Scottish Government funding allocation of £1.5 million for the year. This underspend was due to reduced staffing costs (primarily as a result of the chief executive going part-time from October 2008 before retiring in January 2009), reductions in publications and the change of the evaluation of the Stable and Complete 2007 project being undertaken in-house.

The Authority exceeded the efficiency target set by the Scottish Government for the year.

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 SIC is consistent with our understanding.

Internal audit's annual report concluded that there was "*substantial assurance on the risk, control and governance arrangements established by the Risk Management Authority*".

Performance management

As outlined on our audit plan overview 2008-09, no specific performance audit work was required to be undertaken during the year. The Authority has not undertaken any work on Best Value in the year.

Our audit work is undertaken in accordance with Audit Scotland's *Code of Audit Practice*. This specifies a number of objectives for our audit.

Audit framework

This year was the third 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.

We outlined the framework under which we operate, under appointment by Audit Scotland, in the audit plan overview issued to the Authority on 20 April 2009.

The purpose of this report is to report our findings as they relate to:

- the **financial statements** and our audit opinions on net operating costs and the regularity of transactions;
- **use of resources**, including financial outturn for the year ended 31 March 2009 and financial plans for 2009-10;
- arrangements around **governance and accountability**, including risk management and our consideration of the work of internal audit; and
- **performance management** and the Authority's arrangements to achieve efficiency savings.

Best Value

Audit Scotland and the Scottish Government have 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 Executive's nine best value principles as the basis for audit activity, Audit Scotland selected five areas as priority development areas (use of resources, governance and risk management, accountability, review and option appraisal, and joint working).

Plans are being developed for the application of a series of toolkits on the use of resources in future years based on an assessment of the Authority's priorities and risks during the audit planning process.

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 the 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 the accountable officer, to make arrangements to secure Best Value.

Action plan

This report includes an action plan containing areas for development identified during our financial statements audit fieldwork. Responsibility for taking action and monitoring progress in response to all our recommendations lies with management.

Acknowledgement

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

We have issued unqualified opinions on the financial statements and the regularity of transactions reflected in those financial statements.

One key issue arose from our audit of the financial statements. The Authority continues to consider its future accommodation plans. The outcome of this decision will determine whether the Authority is required to meet lease dilapidation costs. A contingent liability is disclosed in the 2008-09 financial statements.

Recommendations

The action plan includes a recommendation for improvement in the following area:

Area for development	Action plan reference
Management need to consider the impact of decisions on accommodation arrangements and consider any potential liability in relation to lease dilapidations.	One

Audit opinions and key issues

Reporting arrangements and timetable

In accordance with the Authority's timetable, draft financial statements were available for audit on 26 May 2009..

Audit opinion

Following approval we issued an audit report expressing an unqualified opinion on the financial statements for the year ended 31 March 2009 and on the regularity of transactions reflected in those financial statements.

Key issues arising during our audit of the financial statements

Our audit plan overview identified some key risk areas. We have concluded our work in these areas and summarise the results throughout this report. Four risks related to the financial statements and our conclusions are summarised below.

Key risk area	Conclusions
Property lease	<p>Under the terms of the property lease for St James House, which is due to expire in 2014, there is a requirement that the Authority return the premises to the landlord in a specified condition, excepting fair wear and tear. Over the period of the lease internal redecoration and redesign of the premises has been completed by the Authority. To date, management has been unable to estimate the potential costs of meeting this obligation and, in line with 2007-08, disclosed this obligation as a contingent liability.</p> <p>Management's anticipated decision in 2009-10 on future accommodation arrangements will require them to undertake a review to facilitate quantification of the potential costs of returning the premises to the landlord.</p>
Accounting for research activity	<p>The Authority commits a significant proportion of its non-pay expenditure on commissioning research projects. It is important that the Authority continues to consider the accounting requirements at the year end to accrue committed expenditure appropriately.</p> <p>We have considered this during our audit and management has confirmed that the projects ongoing at the year end were all under budget. Further, all costs incurred have been appropriately reflected in the financial statements.</p>
Litigation and claims	<p>The 2007-08 audit identified an ongoing legal dispute for which legal advice was sought by management, and appropriately accounted for within the 2007-08 financial statements.</p> <p>This dispute was settled during 2008-09, following legal advice. The Authority has no liability outstanding.</p>
Corporate governance – changes in internal control	<p>A review of the Authority's activities was undertaken during the year ("the Landscape Review") and it was confirmed that the organisation would continue for the foreseeable future. During this process the chief executive went part-time from October 2008 before retiring in January 2009. The post was effectively covered by two senior members of staff who shared the relevant responsibilities, with one being formally designated as accountable officer.</p> <p>Since the year end Yvonne Gailey has been appointed as chief executive. During our audit we did not identify any significant impact on internal control environment from these changes.</p>

We did not identify any other risk areas during our audit of the financial statements.

Audit opinions and key issues (continued)

Regularity of transactions

In order to gain assurance over the regularity of expenditure we updated our understanding over the processes in place to receive Scottish Government circulars, register, allocate and distribute responsibility for action points and monitor and follow up these action points.

We have considered the specific requirements of a number of financial circulars, particularly those in relation to remuneration, and did not identify any instances of non-compliance.

Service organisations

Our audit approach is tailored to reflect the Authority's arrangement whereby accountancy services are provided by the Scottish Government.

The financial statements report a surplus against Scottish Government funding in 2008-09.

The Authority exceeded its efficiency target through savings in board member salary costs and changes in their use of information technology.

Recommendations

We did not identify any significant recommendations for development of the Authority's arrangements to manage the use of resources.

Financial position and budgetary control

The Authority achieved an outturn of £1,237,000 against a budget of £1,500,000, reflecting a saving of £263,000. The main reasons for this were:

- £142,000 in relation to projects delayed into 2009-10 as a result of the Landscape Review process;
- £42,000 of savings in staffing costs, due mainly to the chief executive going part-time from October 2008 before retiring in January 2009;
- £30,000 of savings on publications; and
- £37,000 in relation to research work undertaken in-house which had planned to be outsourced.

We have reviewed the financial and budgetary control systems and concluded that they are adequate for the size of the organisation.

Capital expenditure of £10,000 was incurred in the year. Capital spend must be managed out of the £1,500,000 allocation from the Scottish Government as there is no formal capital budget for the year.

Efficiency savings

The Authority achieved £31,000 of savings against a target of £23,000. Savings were primarily achieved through increased use of information technology, process improvement initiatives and savings in board salary costs as a result of vacancies during the year.

Financial planning

The Authority's budget has remained constant over the last three years, though the Scottish Government has indicated a reduction in the budget for the Authority of £250,000 in 2009-10 and again in 2010-11. The 2009-10 financial plan is being completed and the Authority are in discussion with the Scottish Government with the aim of agreeing a finalised budget. Management has noted that the indicated cuts could place significant pressure on the Authority.

Management are currently considering significant capital investment in a case management system; the source of funding for this has not yet been determined.

Information management

Under the revised Financial Reporting Manual for 2008-09 the Authority are required to disclose in the management commentary in the financial statements any personal data incidents in the year. Management have confirmed to us that there are no such incidents to report.

The business continuity plan was updated in the year following a recommendation by internal audit.

International financial reporting standards

The Scottish Government announced on 25 April 2008 that all Scottish Government departments, executive agencies, health bodies and non-departmental public bodies will be required to produce shadow IFRs based financial statements for financial year 2008-09. This includes a restated balance sheet as at 1 April 2008. The Authority is currently planning work on production of the shadow IFRs financial statements.

The statement of internal control does not disclose any significant weaknesses in the systems of internal control. The content of the statement is consistent with our understanding of the Authority.

Internal audit completed their agreed plan for the year and concluded that there was "*substantial assurance on the risk, control and governance arrangements established by the Authority*".

The majority of key financial controls are designed appropriately and operating as intended.

There are procedures to ensure consideration of guidance from the Scottish Government, together with other relevant laws and regulations.

Recommendations

We did not identify any significant recommendations for development in governance and accountability arrangements.

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;
- 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 Authority's board currently operates with eight members appointed by the Scottish Ministers under the Criminal Justice (Scotland) Act 2003. 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;
- registration and declaration of interests;
- lobbying and access to members of public bodies; and
- political activity.

The register of interests of members is updated annually 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 ("SIC")

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 which was reviewed by the audit committee in December 2007. The Authority also has in place a risk register which was updated and approved by the audit committee during the year. As part of an internal audit recommendation, this was shared with all staff and management report that it was well received.

The internal audit annual report also noted that *“business planning and risk management processes are good”*.

Internal audit

Internal audit services are provided by the Scottish Government internal audit division. In their annual report, internal audit concluded that there is *“substantial assurance in relation to the risk, control and governance arrangements in place at the Authority.”*

Internal audit raised recommendations that the risk register and business continuity plans were out of date. These were subsequently updated.

In conducting our work for the year we have given due consideration to the findings of internal audit.

Fraud and irregularity

The Authority’s approved fraud policy identifies specific responsibilities for the prevention and detection of fraud. The Authority also has an approved public interest disclosure reporting policy, which complies with the requirements of the Public Interest Disclosure Act 1998.

Management did not identify any significant instances of fraud or irregularity during the year.

The Authority achieved the majority of its key objectives for the year.
A number of key objectives were delayed into 2009-10 as a result of the Landscape Review.
The Authority has not undertaken any work on Best Value in the year.

Recommendation

We did not identify any recommendations for development in this area.

Performance management arrangements

In addition to the three year business plan, a detailed one year business plan is produced annually for the Authority. This details the key objectives for the year against each of the Authority's aims. These are monitored throughout the year and the audit committee are updated regularly with the progress. In the annual report each year the Authority sets out the initiatives that it plans to run in the coming year and details whether those planned in the prior year audit report were achieved. The business plan for 2008-09 detailed 31 key objectives and we have noted that where objectives have not been met in the year, this is primarily due to the objective being moved into 2009-10 or being ongoing.

As noted above, the Scottish Government sets annual efficiency targets which the Authority met in 2008-09.

Best Value

Audit Scotland and the Scottish Government have 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, Audit Scotland selected five areas as priority development areas (use of resources, governance and risk management, accountability, review and option appraisal, and joint working).

We note that Audit Scotland has developed a series of toolkits for use by auditors. Audit Scotland confirmed that there was no requirement for application of these toolkits at the Authority in 2008-09.

Appendix one – action plan

Priority rating for recommendations

Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the Authority or systems under consideration. The weakness may therefore give rise to loss or error.

Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified.

Grade three (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the controls to meet their objectives in any significant way. These are less significant observations than grades one and two, but we still consider they merit attention.

No.	Issue and recommendation	Management response	Officer and due date
1	<p>Future plans for the accommodation remain uncertain, together with the potential cost of any lease dilapidations.</p> <p>Management's anticipated decision in 2009-10 on future accommodation arrangements will require them to undertake a review to facilitate a quantification of the potential costs of returning the premises to the landlord at the end of the lease.</p> <p><i>(Grade two)</i></p>	<p>Following review in 2009-10 of future accommodation arrangements, management will reassess the cost of lease dilapidations and consider the requirement for a provision for these costs.</p>	<p>Director of Business Performance 31 March 2010</p>