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Risk Management Authority

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

Year ended 31 March 2011

25 July 2011



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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 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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We issued unqualified opinions on the financial statements of the Risk Management Authority (“the Authority”) for the year ended 31 March 2011, following their approval by the board.

Since 2006-07, when legislation was adopted, 97 Risk Assessment Orders have been instructed by the High Court. Between 26 and 29 are issued each year and the Authority expects this rate to remain consistent in future years.

Management has implemented a revised staff structure during 2010-11 and continued to ensure that they have sufficient accredited assessors to manage case volumes. Management has also revised the Risk Management Plan review process to ensure continued compliance with legislation, while reducing the administrative burden on the Authority.

A provision, which has been increased in line with expectations in 2010-11, continues to be recognised in relation to lease dilapidation costs.

2010-11 is the first year in which the Authority has generated income (other than grant in aid received from the Scottish Government). The Authority charged for attendance at two conferences held in 2010-11 and generated £32,000 of income. We have agreed a revised presentation of this income in the financial statements.

The net operating cost as at 31 March 2011 was £0.955 million, representing savings of £0.045 million against the originally agreed budget for 2010-11 of £1 million. The Authority also received budget approval for an additional £0.1 million to fund two research posts which was not required. The Authority declared this saving to the Scottish Government.

The main reason for the underspend relates to vacancies in the first two quarters of the financial year and additional income from conferences.

The Authority’s budget has been reduced by £250,000 in each of the past two years. For 2011-12, the Authority’s budget has been maintained at £1 million. A 3% efficiency target has also been set.

Management completed a Best Value self-assessment which was reported by internal audit.

We reviewed management’s response to the joint Accounts Commission / Auditor General for Scotland report, “Improving Public Sector Purchasing” published in July 2009. We concluded that, given the size of the Authority, arrangements were well developed.

Over-arching and supporting corporate governance arrangements remain primarily unchanged and provide a sound framework for organisational decision-making.



Executive summary Headlines

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

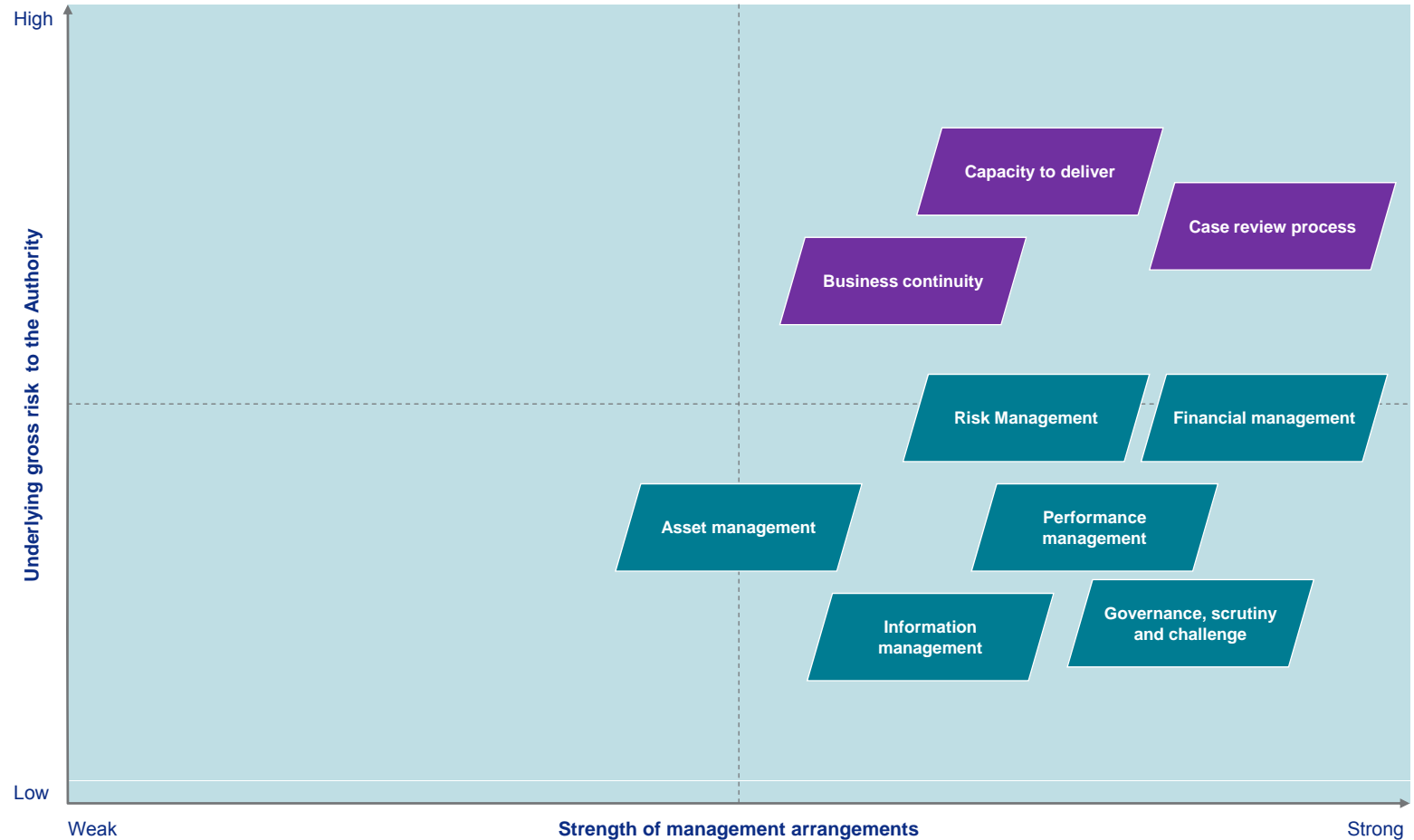
This report summarises our work for the year ended 31 March 2011.

We wish to record our appreciation of the continued co-operation and assistance extended to us by the Authority's staff during the course of our work.

Priorities and risks	
In our view, the risk that case loads continue to increase presents ongoing challenges to operational sustainability, but management has taken action to ensure the staff structure is appropriate to manage the increasing case load. Management has also revised procedures, following consideration of legislative requirements, to ensure that they are as efficient as possible.	Page 5
Financial statements	
We issued unqualified audit opinions on the 2010-11 financial statements and the regularity of transactions reflected in those financial statements.	-
We considered two technical accounting matters during the audit process in respect of property lease dilapidations and the presentation of income; management provided good quality analysis and one audit adjustments was required .	Page 7
Use of resources	
The Authority met its budget.	Page 9
We considered internal audit's review of the Authority's arrangements to ensure Best Value.	Page 10
We assessed management's response to Audit Scotland's national reports; in the majority of areas, management has taken reasonable action to mitigate risks and improve processes at a local level.	Page 11
Governance	
There have been no significant changes and the statement on internal control continues to confirm the existence of a comprehensive framework of internal control.	Page 12
Internal audit completed their plan and did not report any significant risk recommendations.	Page 12
Arrangements to prevent and detect fraud are embedded in internal controls.	Page 12

Competing risks and pressures continue to present new and recurring challenges. Overall, the impact of sector priorities present a moderate risk.

The diagram summarises the potential underlying risks to achievement of strategic objectives, compared to the strength of management arrangements to mitigate these risks. The following pages summarises those areas where we believe that significant risks are inadequately managed, together with those where management arrangements are likely to mitigate or eliminate these risks to a greater or lesser extent.



Significant risks exist but actions have been identified which are likely to address the issue

<p>Capacity to deliver</p>	<p>Since 2006-07 when legislation was adopted, 97 Risk Assessment Orders have been instructed by the High Court. Between 26 and 29 are issued each year and the Authority expects this rate to remain consistent.</p> <p>Despite the continued high number of new cases the Authority has reported achievement of key targets.</p> <p>In 2010-11, three accredited assessor applications were approved, and eight individuals were re-accredited. The Authority's accreditation committee has now capped the number of accredited assessors to ensure those already accredited obtain sufficient cases to maintain their experience.</p>	<p>Management effectively monitor case load and performance statistics.</p> <p>Management has implemented a revised staff structure during 2010-11 and continued to ensure that they have sufficient accredited assessors to manage case volumes.</p>
<ul style="list-style-type: none"> ■ Risks exist, but actions have been identified which are likely to address the issue and management have demonstrated an ability to manage the existing case load in 2010-11. 		
<p>Case review process and information security</p>	<p>Until 2010-11, each Risk Management Plan which the Authority had issued was subject to an annual review and each review required consideration by the RMP Committee.</p> <p>Following consideration of legislation and consultation with legal counsel, the Authority concluded that annual Risk Management Plan Reviews were not required unless a significant change in an individual's circumstances was highlighted by the lead authority.</p>	<p>The changes to the Risk Management Plan review process should help the Authority manage the continued increase in case load.</p>
<ul style="list-style-type: none"> ■ Risks exist, but actions have been identified which are likely to address the issue and management have demonstrated a pro-active approach to reviewing their processes to ensure efficiency and compliance with legislation. 		

<p>Business continuity</p>	<p>The Authority continues to maintain a number of case files and documentation in paper records which represents an inherent risk of loss or destruction in the event of a disaster.</p> <p>There is also a risk to the interruption of services or processes if they cannot be transferred to a new location easily in the event of a disaster.</p>	<p>The Authority has a documented Business Continuity Plan covering denial of access to their offices at St. James' House, backing up of data and recovery from major IT failure.</p>
<ul style="list-style-type: none"> ■ Risks exist, but actions have been identified which are likely to address the issue and management are actively seeking to mitigate the risk. 		



Management anticipated discussions on the treatment of income from conferences; one audit adjustment was required and matters were concluded in a timely manner

Areas of HIGH audit risk			
Area	Value (£'000)		KPMG comment
	2010	2011	
Research accounting	-	-	<p>The Authority continues to commission research activity and the research team has been supplemented by two additional staff members during 2010-11. The Authority received an additional £100,000 of funding from the Scottish Government to fund these posts, but the Authority was able to meet the costs within their core grant in aid allocation and did not require to draw down these additional funds.</p> <p>We reviewed management's consideration of the terms and conditions of research contracts and invoices raised at the year end to confirm that expenditure is correctly stated as at 31 March 2011.</p>
Provisions for liabilities and charges (lease dilapidations provision)	12	24	<p>During 2009-10, management considered the terms of the property lease for St James' House which is due to expire in 2014. Under the terms of this lease the Authority is required to return the premises to the landlord in a specified condition. An estimate was obtained for the costs of returning the property to the required condition and a provision is being established to account for this cost over the remaining life of the lease.</p> <p>During 2010-11, the provision was increased by £12,000 to £24,000 and will continue to be increased to meet the expected obligation (currently estimated by management at £60,000) on expiry of the lease.</p>
Income generating activities	-	32	<p>2010-11 is the first year in which the Authority has generated income (other than grant in aid received from the Scottish Government). The Authority held two conferences in 2010-11: in May 2010, "Principles and Values in Multi-agency Risk Management" and March 2011, "Engaging in Change: new directions, new approaches in criminal justice practice".</p> <p>The Authority charged participants to attend these events.</p> <p>We discussed the presentation of this income with management to ensure it was presented in accordance with the FReM. An audit adjustment was required to recognise the income in the Statement of Comprehensive Net Expenditure rather than the Statement of Changes in Taxpayers' Equity.</p>

Systems and Controls

Preparation of the financial statements

- Draft financial statements and supporting documentation were provided on 9 May 2011, which was in line with the agreed timetable.
- For 2010-11, management prepared a single annual report and accounts document, rather than annual accounts and a separate annual report containing summary financial information.

Control environment

- Overall, management's approach to preparing the financial statements is efficient.

The net operating costs as at 31 March were £0.045 million below the approved budget.

The 2011-12 budget has been maintained at £1 million, together with an additional 3% efficiency target.

Financial position

The net operating cost as 31 March 2011 was £0.955 million, representing savings of £0.045 million against the originally agreed budget of £1 million. The Authority also received budget approval for an additional £0.1 million to fund two research posts which was not required. The Authority declared this saving to the Scottish Government.

The main reason for the underspend was reduced staff costs. The Authority had two vacant posts during the first two quarters of 2010-11 and was able to meet the cost of the additional researchers within the original £1 million budget allocation.

The Authority charged for attendance at two conferences in 2010-11 for the first time. Income of £32,000 from the conferences represented an excess of £14,000 compared to the budget.

Following a rent review, accommodation costs were £19,000 below budget and improved management of IT resources delivered savings of £9,000.

As a result of a legal case and legal advice involved in reviewing legislation and revising the Risk Management Plan review process, legal costs exceeded budget by £9,000.

The Authority incurred an overspend of £18,000 in respect of the capital budget related to investment in ICT equipment to enhance research and development capabilities.

Financial planning

The Authority's budget has been reduced by £250,000 in each of the past two years. For 2011-12, the Authority's budget has been maintained at £1 million. In preparing the 2011-12 budget, the Authority is aware of the continued need to generate efficiencies and a further 3% efficiency target has been agreed in respect of 2011-12.

Key risks

Achievement of the 2011-12 financial plan will be challenging.

While the outturn for 2010-11 was below the approved budget for 2011-12, there is still the risk that costs exceed budget.

Key risks identified

- The Scottish Government has revised the process for monitoring and reporting efficiency savings.
- Management believe there is reduced scope for further efficiencies, given realised savings in previous years.
- The Authority anticipates presentation of a workforce plan to the Scottish Government to demonstrate the changes required in order to meet increasing case loads.
- Management recognise that the Authority is increasingly asked to carry out functions which may not be their direct responsibility under legislation. Where this has happened to date, the Authority has received additional funding, but there remains a risk that additional responsibilities are assigned to the Authority without the necessary additional funding.

Management completed a Best Value self-assessment which was reported by internal audit.

Best value

As part of internal audit's review in 2010-11 they examined the Authority's compliance with the current guidance relating to the Scottish Government's Best Value initiative. Their review included use of the following Audit Scotland toolkits:

- Governance and Accountability;
- Risk Management; and
- Financial Management.

Internal audit noted that in a significant number of areas, the Authority was considered to demonstrate better or advanced practices. Although some areas were deemed to demonstrate basic practices, internal audit did not make recommendations on how these could be improved.

Internal audit noted that given the size of the Authority and the fact it is already demonstrating sound performance in most areas, the cost of implementing any changes might outweigh any benefits.

Management may wish to consider implementing an action plan, as a result of completion of each of the toolkits to ensure performance is improved, where appropriate. A follow-up exercise could be completed involving re-completion of the toolkits to measure progress.

Audit Scotland periodically undertakes national studies on topics relevant to the performance of central government bodies. We are required to report on the Authority's response and reaction to these throughout the year.

Our work has found that the Authority has appropriate procedures and controls in this area.

Audit Scotland national studies

Audit Scotland periodically undertakes national studies on topics relevant to the performance of central government bodies. While the recommendations from some of the studies may have a national application, elements of the recommendations are also capable of implementation at local level, as appropriate.

Audit Scotland's corporate plan 2009-12 reinforces a commitment to maximising the impact of their work and demonstrating this impact. As part of this process, external auditors are required to provide information on how bodies respond to national performance audit reports.

Management has procedures established to consider individual reports. In addition, where appropriate, management will carry out a self-assessment against the national study and implement local action plans.

In 2010-11 a more targeted follow-up was to be completed by auditors in respect of the Authority's actions following publication of the joint Accounts Commission / Auditor General for Scotland report, "Improving Public Sector Purchasing" published in July 2009.

Our work centred around the answers to three questions to facilitate analysis of the Authority's arrangements. Overall, taking into account the size and nature of the Authority, we found that processes are appropriate and mitigate the issues highlighted by the report.

We have provided a separate report to management and Audit Scotland in respect of this follow-up work.



Over-arching and supporting corporate governance arrangements remain primarily unchanged and provide a sound framework for organisational decision-making.

Corporate governance framework	<p>The Authority maintains an integrated governance framework to provide an appropriate structure for maintaining decision-marking, accountability, control and behaviour.</p> <p>During the course of the year there were a number of changes to board membership.</p>
Statement on internal control	<p>The statement on internal control provides details of the purpose of the framework of internal control, along with an analysis of its effectiveness. We have made a number of minor recommendations to enhance the statement and ensure full compliance with guidance issued by the Scottish Government.</p>
Internal controls	<p>Our testing, combined with that of internal audit, of the design and operation of financial controls over significant risk points confirms that controls are designed appropriately and operating effectively.</p>
Internal audit	<p>Internal audit has submitted all of their planned reports for the year. These reports found controls were generally good and highlighted some recommendations to enhance them.</p> <p>Internal audit noted particularly that the Authority’s guidance to staff on procurement was good and that the Authority was making significant progress in formalising procurement arrangements.</p> <p>Internal audit’s annual report concluded that they could provide “<i>substantial assurance</i>” on the arrangements in place in respect of risk management, controls and governance arrangements.</p>
Fraud and irregularity	<p>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.</p> <p>Management did not identify any instances of fraud or irregularity during the year. During our audit of the financial statements we did not identify any known or suspected instances of fraud or irregularity.</p>



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