

# Risk Management Authority

2018/19 Annual Audit Report



 AUDIT SCOTLAND

Prepared for the Risk Management Authority and the Auditor General for Scotland

17 June 2019

## Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



## About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Key messages

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## 2018/19 annual report and accounts

- 1** The Risk Management Authority's financial statements give a true and fair view and were properly prepared.
- 2** Expenditure was in accordance with applicable enactments and guidance.
- 3** The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

## Financial sustainability

- 4** We concluded that whilst the Risk Management Authority (RMA) achieved financial balance in 2018/19 and projects balance within its 2019/20 business plan. Budget forecasts highlight that the RMA is facing a potential cumulative funding gap of approximately £1.060 million over the 2020/21 - 2024/25 period. Therefore, there is a risk that the RMA will be unable to deliver its services in the medium to longer term.

## Governance Statement

- 5** We concluded that the information in the governance statement complies with the guidance issued by the Scottish Ministers.

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# Introduction

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1. This report summarises the findings from our 2018/19 audit of the Risk Management Authority (RMA).

2. The scope of our audit was set out in our Annual Audit Plan presented to the 18 February 2019 meeting of the Audit Committee. This report comprises the findings from:

- an audit of the RMA's annual report and accounts
- our consideration of the financial sustainability of the RMA

## Adding value through the audit

3. We add value to the RMA through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
- providing clear conclusions on the appropriateness, effectiveness and impact of corporate governance and financial sustainability.

4. In so doing, we aim to help the RMA promote improved standards of governance, better management and decision making and more effective use of resources.

## Responsibilities and reporting

5. The RMA has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing an annual report and accounts that are in accordance with the accounts direction from Scottish Ministers. The RMA is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

6. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice 2016 and](#) supplementary guidance and International Standards on Auditing in the UK OR

7. As public-sector auditors we give independent opinions on the annual report and accounts and conclude on securing financial sustainability and appropriateness of the governance statement disclosures. In doing this, we aim to support improvement and accountability.

8. The [Code of Audit Practice 2016](#) (the Code) includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services. As highlighted in our 2018/19 Annual Audit Plan, due to the volume and lack of complexity of the

financial transactions, we applied the small body provisions of the Code to the 2018/19 audit. As a result, our wider dimension work focused on financial sustainability and appropriateness of the disclosures within the Governance Statement.

**9.** The weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

**10.** Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.

**11.** We confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2018/19 audit fee of £7,010 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

**12.** This report is addressed to the RMA and the Auditor General for Scotland and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

**13.** We would like to thank the management and staff for their cooperation and assistance during the audit.

# Part 1

## Audit of 2018/19 annual report and accounts



### Main judgements

The RMA's financial statements give a true and fair view and were properly prepared.

Expenditure was incurred in accordance with applicable enactments and guidance.

The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers.

The annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

### Audit opinions on the annual report and accounts

14. The annual report and accounts for the year ended 31 March 2019 were approved by the Audit and Assurance committee on 17 June 2019. We reported, within the independent auditor's report that:

- the financial statements give a true and fair view and were properly prepared
- the audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements and properly prepared in accordance with the relevant legislation and directions made by Scottish Ministers
- we have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records and the information and explanations we received.

### Submission of annual report and accounts for audit

15. We received the unaudited annual report and accounts on 10 May 2019 in line with our agreed audit timetable.

16. The unaudited annual report and accounts provided for audit were complete and of a good standard and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

### Risks of material misstatement

17. [Appendix 2](#) provides a description of those assessed risks of material misstatement and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have performed to gain assurance over the outcome of these risks.

18. We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan.

## Materiality

**19.** Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. When deciding on what is material we consider both the amount and nature of the misstatement.

**20.** Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit. With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

**21.** On receipt of the unaudited annual report and accounts we reviewed our materiality calculations and revised our calculations based on the unaudited 2018/19 accounts. The differences in the materiality levels calculated were slight and did not impact on our audit approach. The materiality levels used are detailed at [Exhibit 1](#).

## Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£24,000
Performance materiality	£18,000
Reporting threshold	£1,000

Source: Audit Scotland

## Significant findings from the audit (ISA 260)

**22.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.

**23.** We have one significant finding to report around the qualitative aspects of the annual report and accounts. This relates to the accounting treatment of the RMA's new planned case management system. Further detail can be seen at Exhibit 2.

## Exhibit 2 Significant findings from the audit of the financial statements

Finding	Resolution
<p><b>1. Case Management System</b></p> <p>In March 2019, the RMA entered into a contract with a supplier to provide a new case management system. This was recorded this as a non-current asset (value of £52k). As the case management system is currently in development and not in use by the RMA, it should have been recorded as an asset under construction (AUC) and shown separately within the financial statements along with a capital commitments disclosure. Also, some of the costs included within the asset value should not have been capitalised but expensed in year. This resulted in a final AUC of £45k.</p>	<p>RMA amended the accounting treatment and value of the case management system and recorded it as an asset under construction. Also, a disclosure was included under capital commitments.</p> <p> <a href="#">Recommendation 1</a> (refer appendix 1, action plan)</p>

## How we evaluate misstatements

**24.** As above, one material adjustment was made to the unaudited annual report and accounts arising from our audit. This resulted in a reclassification of an IT asset to an Asset Under Construction. All individual misstatements which exceeded our reporting threshold have been amended in the audited financial statements.

**25.** It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. Management have adjusted for the item above.

## Follow up of prior year recommendations

**26.** The RMA has implemented our prior year audit recommendation as set out in Appendix 1.

# Part 2

## Financial sustainability and governance statement



### Main judgements

We concluded that while the RMA achieved financial balance in 2018/19. The 2019/20 financial plan is projecting financial balance.

Budget forecasts highlight the RMA is facing a potential cumulative funding gap of approximately £1.060 million over the 2020/21-2024/25 period. There is a risk that the RMA will be unable to deliver its services in the medium to longer term.

The governance statement complies with guidance issued by Scottish Ministers and includes details of how the accountable officer is fulfilling best value duty.

### Financial sustainability

27. Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

#### Financial performance in 2018/19

28. The main financial objective for the RMA is to ensure that the financial outturn for the year is within the budget allocated by the Scottish Government. The RMA had an underspend of £1,000 on a budget of £1,074,000 in 2018/19 as highlighted in [Exhibit 3](#).

### Exhibit 3

#### Performance against Departmental Expenditure Limit (DEL) in 2018/19

Performance	Initial DEL £m	Final DEL £m	Actual drawdown £m	Over/(under) allocation £m
Resource DEL	1.317	1.074	1.073	(0.001)

Source: Audited Annual Report and Accounts and Budget Allocation and Monitoring letter 2018/19

### Short term financial planning

29. The RMA is funded directly by Grant in Aid received from the Scottish Government.

30. The RMA submitted its 2019/20 draft budget in October 2018 with a resource allocation of £1,312,199 which is in line with the 2018/19 budget allocation (£1,312,000). The 2019/20 budget allocation of £1,313,000 was approved by the Scottish Government on 27 March 2019.

31. Funding from the Scottish Government is the RMA's sole source of income and there is more certainty over future funding streams than for some other public-sector organisations who are involved in income generating activities. Therefore,

the focus for the RMA is achieving a balanced financial plan to remain within their annual allocation.

### Medium to long term financial planning

**32.** We reviewed the financial planning systems and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term.

**33.** The RMA has prepared budget forecasts covering the period 2021/22-2024/25. The RMA intends to submit these forecasts, along with a medium-term plan for consideration at the June 2019 meeting of the RMA Board. The forecasts and medium-term plan will then be sent to the RMA's Sponsor Department to support their request for increased funding.

**34.** The RMA also produces an annual business plan which outlines the work being undertaken in the year to meet its strategic aims. We concluded that the RMA has adequate financial management arrangements in place.

**35.** Most of the savings required in 2020/21 and beyond have yet to be identified. Most RMA expenditure relates to staff costs and this is the expenditure that is increasing year on year. The RMA cannot reduce such expenditure without failing to deliver services required by legislation. The RMA has a good track record in engaging with the Sponsor Department and agreeing revised funding levels.

### Withdrawal from the EU (Brexit)

**36.** There remains significant uncertainty surrounding the terms of the UK's withdrawal from the European Union (EU). EU withdrawal will inevitably have implications for devolved government in Scotland and for audited bodies. It is critical that public sector bodies are working to understand, assess and prepare for the impact on their business in three broad areas:

- Workforce – the extent to which potential changes to migration are likely to affect the availability of the people and skills needed to deliver services.
- Funding – the extent to which potential changes to existing EU funding programmes are likely to affect the finances of public bodies and the activity that such funding supports.
- Regulation – the extent to which potential changes to EU regulations are likely to affect the activities of some public bodies.

**37.** The RMA raised the potential issue of EU withdrawal at the November 2018 Audit and Assurance Committee. The RMA prepared a brief paper assessing the direct, indirect, immediate and medium-term implications. A staff meeting was also held to encourage discussion at all levels of potential risks. The RMA concluded that the risk did not require inclusion within the risk register

**38.** Overall, we concluded that the RMA is sufficiently prepared for EU Withdrawal.

### Governance statement

**39.** HM Treasury Financial Reporting Manual 2018/19 (FReM), specifies the preparation of an annual governance statement as part of the annual financial statements. The Scottish Public Finance Manual (SPFM) sets out guidance on the content and minimum requirements of the statement but does not prescribe a format. We concluded that the annual governance statement 2018/19 complies with the guidance issued by the Scottish Ministers and presents a satisfactory explanation and assessment of RMA's governance arrangements for the year under review.

## Good Practice

**40.** Compliance with the duty of Best Value is an auditable requirement. Ministerial guidance has been issued to accountable officers on best value. The guidance states that compliance with the duty of best value requires public bodies to take a systematic approach to self-valuation and continuous improvement.

**41.** As part of our review of the governance statement we noted that the RMA has developed a framework document detailing their self-assessment against best value principles. The framework document sets out the evidence available for each best value principle.

## Other matters

**42.** The RMA makes use of the Scottish Government internal audit service. The external auditors of the Scottish Government, Audit Scotland, are currently conducting a review of the adequacy of the internal audit function. We will review the findings of this assessment once the final report is published and notify the RMA where any significant issues are identified.

# Appendix 1

## Action plan 2018/19



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p><b>Case Management System</b></p> <p>During March 2019, the RMA entered into a contract with a supplier to provide a new case management system and recorded this as a non-current asset (value of £52k). As the case management system is currently in development and not in use by the RMA, it should be recorded as an asset under construction and shown separately within the financial statements. A capital commitments disclosure should also be reflected. In addition, some of the costs included within the asset value should not have been capitalised but expensed in year. This resulted in a final asset under construction value of £45k.</p> <p><b>Risk – there is a risk that non-current assets are not accurately reflected within the accounts.</b></p>	<p>RMA should amend the accounting treatment and value of the case management system and record as an asset under construction. A disclosure should be included within capital commitments.</p>	<p>The RMA will amend the accounting treatment and value of the case management system and record as an asset under construction and a disclosure will be included within capital commitments.</p>
2	<p><b>Financial Sustainability</b></p> <p>The budget forecasts prepared by the RMA identify a total cumulative funding gap of £1.060m over the period 2020/21-2024/25.</p> <p>RMA expenditure is mainly staff costs and without sufficient funding the RMA may have to stop the delivery of certain services required by legislation.</p> <p><b>Risk – there is a risk that the RMA will be unable to deliver services in the medium to long term.</b></p>	<p>The RMA board should continue to closely monitor performance against financial budgets and forecasts used in future financial plans. The board should consider longer term financial plans and contingencies identified.</p> <p>The RMA should actively engage with the Sponsor Department to agree future funding levels.</p>	<p>The five-year funding plan will be reported to the Board who will consider the longer-term funding arrangements and identify appropriate contingencies. The RMA will engage with the Sponsor Department to agree future funding levels.</p>



**No.**    **Issue/risk**

**Recommendation**

**Agreed management  
action/timing**

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**Follow up of prior year recommendation**

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<p><b>3</b></p> <p><b>Litigation Claim</b></p> <p>The RMA has received a legal claim for damages and are defending the case.</p> <p>This is potentially a significant liability for the RMA which carries with it reputational risk.</p> <p>The RMA is defending an appeal to the litigation claim which was dismissed in December 2017.</p> <p><b>Risk</b></p> <p>There is still a risk that this legal claim results in a significant financial liability to the RMA.</p>	<p>Developments in this legal case continue to be closely monitored and careful consideration be given to any future cost implications.</p>	<p>The Court has concluded on this matter and refused all actions brought by the plaintiff.</p>
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# Appendix 2

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>Testing completed as planned.</p> <p>We have not identified any instances of management override of controls.</p>

# Appendix 3

## Summary of national performance reports 2018/19

### 2018/19 Reports

Local government in Scotland: Challenges and performance 2018		<b>Apr</b>	
Councils' use of arm's-length organisations		<b>May</b>	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		<b>Jun</b>	
		<b>Jul</b>	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		<b>Aug</b>	 Major project and procurement lessons
Children and young people's mental health		<b>Sept</b>	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		<b>Oct</b>	
Health and social care integration: update on progress		<b>Nov</b>	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		<b>Mar</b>	 Local government in Scotland: Challenges and performance 2019

# Risk Management Authority

## 2018/19 Annual Audit Report

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