

Risk Management Authority

2019/20 Annual Audit Report



 AUDIT SCOTLAND

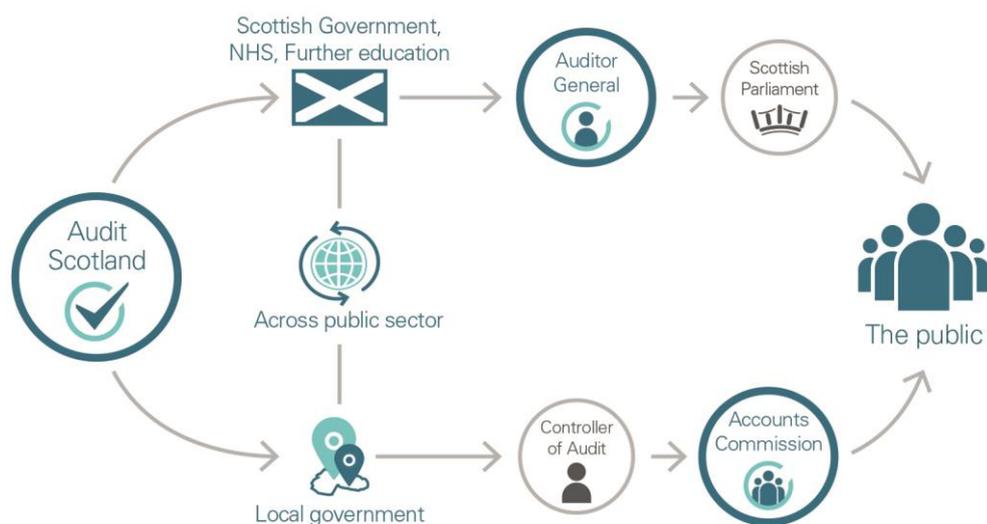
Prepared for the Risk Management Authority and the Auditor General for Scotland

17 August 2020

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

Audit of 2019/20 annual report and accounts

- 1** The Risk Management Authority's financial statements give a true and fair view and are properly prepared in accordance with the financial reporting framework.
- 2** The expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.
- 3** The other information in the annual report and financial statements is consistent with the accounts and prepared in accordance with legal requirements.
- 4** The commencement of the audit of the annual report and accounts, and issue of the independent auditor's report, were subject to delay as a result of the Covid-19 pandemic. However, the completeness and accuracy of financial records were not affected and there was no restriction on the scope of the audit work carried out.

Financial sustainability and governance statement

- 5** Budget forecasts indicate that the RMA is facing a potential cumulative funding gap of approximately £0.172 million over the four-year period up to and including 2024/25. Additional baseline funding has been secured to support recruitment considered necessary for the delivery of key objectives.
- 6** We concluded that the governance statement complies with guidance issued by Scottish Ministers.

Introduction

1. This report summarises the findings from our 2019/20 audit of the Risk Management Authority (RMA).
2. The scope of our audit was set out in our Annual Audit Plan presented to the 17 February 2020 meeting of the Audit and Assurance Committee. This report comprises the findings from:
 - an audit of the RMA's annual report and accounts
 - our consideration of financial sustainability of the RMA
3. Subsequent to the publication of the Annual Audit Plan, in common with all public bodies, the RMA has had to respond to the COVID-19 pandemic. This impacted on the final month of the year and will continue to have significant impact into financial year 2020/21. Our planned audit work has had to adapt to new emerging risks as they relate to the audit of the financial statements.

Adding value through the audit

4. 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
 - attendance at Audit and Assurance Committees to participate in discussions and respond to any questions from members
 - sharing intelligence and good practice through our national reports and good practice guides where relevant (e.g. Improving the quality of performance reports in central government bodies)
 - providing clear conclusions on financial sustainability and the appropriateness of corporate governance arrangements including disclosures in the Governance Statement.
5. 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

6. 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 Risk Management Authority is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.
7. Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000, the Code of Audit Practice 2016 and supplementary guidance and International Standards on Auditing in the UK.

8. As public sector auditors we give independent opinions on the annual report and accounts. Additionally, we conclude on the appropriateness and effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice 2016 and supplementary guidance.

9. 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 2019/20 Annual Audit Plan, due to the low volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2019/20 audit.

10. This report raises matters identified from our audit. 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.

11. 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.

Auditor Independence

12. 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 2019/20 audit fee of £7,110 as set out in our Annual Audit Plan, remains unchanged.

13. We are not aware of any relationships that could compromise our objectivity and independence.

14. 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 in due course.

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

Part 1

Audit of 2019/20 annual report and accounts



Main judgements

The Risk Management Authority's financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.

The expenditure and income in the financial statements were incurred or applied in accordance with applicable enactments and guidance.

The other information in the annual report and financial statements is consistent with the accounts and prepared in accordance with legal requirements.

The commencement of the audit of the annual report and accounts, and issue of the independent auditor's report, were subject to delay as a result of the Covid-19 pandemic. However, the completeness and accuracy of financial records were not affected and there was no restriction on the scope of the audit work carried out.

Our audit opinions on the annual report and accounts are unmodified

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

17. The annual report and accounts for the year ended 31 March 2020 were approved by the board on 17 August 2020.

18. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- expenditure and income are regular and 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 Risk Management Authority complied with the full requirements of the FReM as they related to the performance and accountability reports

19. Scottish Government deadlines for the submission of unaudited accounts, and for audited accounts, were not changed as a result of the Covid-19 outbreak, and full 2019/20 FReM requirements remained applicable to the accounts. Subsequently, provisions were announced whereby public bodies could streamline

the narrative content of the annual performance and accountability reports. The RMA, however, complied with the full requirements of the 2019/20 FReM.

The annual report and accounts were audited and signed off later than planned

20. Due to the impact of COVID-19 on both the RMA finance team and the external audit team, it was mutually agreed that work on the financial statements audit would commence 22 June instead of 11 May as planned, and that audited accounts and the annual report on the audit would be presented to the Board on 17 August instead of on 15 June. Despite these rearrangements, Scottish Government audit and accounting deadlines were still met.

21. The completeness and accuracy of accounting records and the extent of information and explanations that we required for our audit were not affected by the COVID-19 outbreak. No restrictions on the scope of our audit were encountered.

22. 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.

Overall materiality is £24,000

23. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

24. On receipt of the unaudited annual report and accounts we reviewed our materiality calculations and concluded that no changes were required to our planned levels.

Exhibit 1 Materiality values

Overall materiality	£24,000
Performance materiality	£18,000
Reporting threshold	£1,000

Source: Annual Audit Plan 2019/20

We have no issues to report from our work on the risks of material misstatement as set out in our 2019/20 Annual Audit Plan

25. [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and accounts. It also summarises the work we have done to gain assurance over the outcome of these risks.

26. We did not identify any additional risks resulting from the impact of COVID-19.

27. We have no issues to report from our work on the risks of material misstatement highlighted in our 2019/20 Annual Audit Plan.

Significant findings from the audit in terms of ISA (UK) 260 (Communication with Those Charged with Governance)

28. 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.

29. The significant findings from the audit of the financial statements are summarised in [Exhibit 2](#).

Exhibit 2 Significant findings from the audit of the financial statements

Finding	Resolution
<p>1. Intangible Assets – Case Management System</p> <p>The new case management system was transferred into operational software in the draft balance sheet (£45k) and was charged with depreciation for the year (£15k) in accordance with the depreciation policy.</p> <p>However, as at 31 March 2020, the system was still undergoing testing and had not become operational, so should have remained categorised as Assets Under Construction (AUC). Depreciation should not be recognised on assets until they provide economic or operational benefit to the organisation.</p>	<p>Accounts amended to retain case management system within AUC, and reverse associated depreciation charge of £15k for the year.</p>
<p>2. Furniture & Fittings – Depreciation Charge</p> <p>The current accounting policy is to depreciate F&F assets over five years, however, additions during the year (£57,289) were depreciated at 33%, rather than at 20% in accordance with the policy.</p>	<p>Accounts amended to reverse the excess depreciation charge of £7,639.</p>

Source: Audit Scotland

Identified misstatements as detailed above were adjusted in the accounts

30. Misstatements identified included £23k (in respect of deprecation), which would have resulted in overstatement of net expenditure if not corrected.

31. The new case management system was not yet operational as at 31 March 2020 so required re-classification of the cumulative cost £45k, from operational Software, to Asset Under Construction.

32. 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.

Good progress was made on prior year recommendations

33. The RMA has fully implemented our prior year audit recommendations.

Part 2

Financial sustainability and governance statement



Main judgements

The RMA achieved financial balance in 2019/20 and is forecasting a break even position for 2020/21.

Budget forecasts indicate that the RMA is facing a potential cumulative funding gap of approximately £0.172 million over the four years up to and including 2024/25. Additional baseline funding has been secured to support recruitment considered necessary for the delivery of key objectives.

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

Financial sustainability

34. Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively, both to continue delivering its services and the way in which they should be delivered.

Financial performance in 2019/20

35. 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 £37,000 on a budget of £1,345,000 in 2019/20 as highlighted in [Exhibit 3](#).

Exhibit 3

Performance against Departmental Expenditure Limit (DEL) in 2019/20

Performance	Initial DEL £m	Final DEL £m	Actual drawdown £m	Over/(under) allocation £m
Resource DEL	1.313	1.345	1.308	0.037

Source: Audited Annual Report and Accounts and Budget Allocation and Monitoring letter 2019/20

Short term financial planning

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

37. The RMA submitted its 2020/21 draft budget in February 2020 with a resource allocation of £1,429,000 which was up 8.8% on the 2019/20 budget allocation (£1,313,000). A meeting was held 12 March 2020, with the Sponsor Department, at which the original budget submission was revised. Several elements of the budget amounting to £84k were removed, however, the RMA was granted an additional £400k of baseline funding to support recruitment considered necessary for the delivery of key objectives. The final 2020/21 budget allocation was therefore agreed at £1,745,000.

38. The RMA achieved financial balance in 2019/20 and is forecasting a breakeven position for 2020/21 under the revised funding agreement.

RMA has a medium-term financial plan which incorporates budget forecasts up to and including 2024/25

39. We reviewed the financial planning systems and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and longer term. Progress has been made with a medium-term financial planning but planning for the longer term is difficult given the annualised allocation of resources.

40. The RMA has prepared budget forecasts under the March 2020 funding agreement covering the period 2021/22–2024/25. These indicate that the RMA is facing a potential cumulative funding gap of approximately £0.172 million over that four-year period.

41. It has been recognised, and acknowledged by the Sponsor Department, that resource savings will be made in 2020/21 as the additional planned posts are unlikely to be filled prior to October 2020. Based on that, the RMA has requested that these savings be transferred to capital budget to meet office adaptation costs which will be necessary to accommodate the additional staff complement.

42. Any savings required in 2021/22 and beyond have yet to be identified, as most RMA expenditure relates to staff costs which is expenditure that normally increases year on year. The RMA cannot easily reduce such expenditure without impacting on its ability to deliver services required by legislation. We have observed, however, that the RMA is proactive in its engagement with the Sponsor Department and in agreeing necessary funding levels.

43. 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 planning arrangements in place.

44. The financial impact of Covid-19 has still to be fully determined. Management consider it highly likely that future funding will be adversely impacted by the economic effect of Covid-19 and are developing a range of scenarios to address different funding outcomes. The existing financial plan should be revised to reflect that expectation.



Recommendation 1

The financial plan should be revised to reflect alternative funding scenarios which might apply in the medium term as a result of Covid-19.

Governance arrangements

45. Governance and transparency are concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

46. We consider the governance structure in place to be appropriate and suitably transparent. Board and committee minutes are available on the RMA website along with other information on the activities of the organisation. Performance information, including financial performance, presented to the Board and relevant committees is sufficiently detailed to enable effective scrutiny.

47. In response to the Covid-19 pandemic, the RMA acted quickly to close its office premises from 16 March 2020 and arrange for all staff to work from home. A virtual Extraordinary Board Meeting was held 30 March to discuss ongoing arrangements. Board and committee meetings have been held as previously scheduled so that no significant disruption to governance has occurred.

Governance statement

48. HM Treasury Financial Reporting Manual 2019/20 (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 2019/20 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

49. 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-evaluation and continuous improvement.

50. The RMA employs a suitable framework for self-assessment against best value principles. Review of these internal assessments has been delegated by the Board to the Audit and Assurance Committee.

Appendix 1

Action plan 2019/20



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Financial sustainability</p> <p>Financial impact of Covid-19 has still to be fully determined. Management consider it highly likely that future funding will be adversely impacted by the economic effect of Covid-19 and are developing a range of scenarios to address different funding outcomes.</p> <p>Risk – Insufficient funding to meet statutory service obligations of the organisation</p>	<p>The financial plan should be revised to reflect alternative scenarios which might apply in the medium term as a result of Covid-19.</p> <p>Paragraph 40</p>	<p>The RMA accepts this recommendation.</p> <p>The Director Corporate Services will be responsible for developing financial scenarios accounting for the potential impact of Covid-19.</p> <p>The financial scenarios are expected to be completed by December 2020.</p>
Follow up of prior year recommendations			
2	<p>Case Management System</p> <p>Accounting treatment and disclosures of assets under construction.</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>At 31 March 2020, the case management system is disclosed as an asset under construction, as testing was still ongoing, and the system had not become operational.</p> <p>Liability for the asset is recognised in the 2019/20 accounts, therefore no capital commitment is necessary.</p>
3	<p>Financial Sustainability</p> <p>Cumulative funding gap of £1.060m over the 5-year period 2020/21-2024/25, representing a risk to delivery of statutory duties in the medium term.</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>Annual Five-Year Funding Plan is discussed and approved by the Board. Longer term financial planning not yet in place.</p> <p>Routine quarterly financial performance reporting against the budget.</p> <p>Effective engagement with SG sponsor department, with specific meetings to review financial sustainability, have resulted in increased baseline</p>



No. Issue/risk



Recommendation



Agreed management action/timing

funding to meet resource requirements in the medium term, and a forecast funding gap over the relevant period of only £172k.

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.

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of material misstatement caused by management override of controls</p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focussed testing of accruals and prepayments.</p> <p>Evaluation of any significant transactions that are outside the normal course of business</p>	<p>Testing outlined in the Annual Audit Plan was carried out as planned, excepting that the Covid-19 lockdown required that our work be carried out remotely.</p> <p>No instances of management override of controls were identified.</p>
<p>2 Risk of material misstatement caused by fraud in income recognition</p> <p>As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements.</p>	<p>The RMA's sole source of income is Scottish Government Grant in Aid funding. This therefore limits the opportunity for manipulation.</p>	<p>We rebutted the risk of fraud over income in our Annual Audit Plan and were able to agree the funding amount to Scottish Government correspondence re budget allocations and revisions.</p> <p>No material misstatement of income identified.</p>
<p>3 Risk of material misstatement caused by fraud in expenditure</p> <p>The Financial Reporting Council's Practice Note 10 highlights that as most public-sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be misstated resulting in a material misstatement in the financial statements.</p>	<p>The RMA's expenditure streams are mainly of a routine nature with low complexity. Most of the expenditure relates to staff and accommodation costs. The risk of expenditure manipulation is therefore reduced.</p>	<p>We rebutted the risk of fraud over expenditure in our Annual Audit Plan. Expenditure testing was performed as part of routine audit work, albeit carried out remotely as noted above.</p> <p>No material misstatement of expenditure was identified.</p>

Audit risk	Assurance procedure	Results and conclusions
Wider dimension risks		
<p>4 Financial sustainability</p> <p>The budget forecasts prepared by the RMA identified a total cumulative funding gap of £1.060m over the period 2020/21-2024/25. RMA expenditure is mainly staff costs and without enough funding the RMA may be unable to deliver certain services required by legislation.</p>	<p>Reviewed the RMA's reported outturn financial position as part of the financial statement's audit.</p> <p>Reviewed the robustness of future savings plans.</p> <p>Reviewed the Corporate Risk Register and considered the mitigating actions in place.</p>	<p>Outturn financial position was an underspend against final budget.</p> <p>Future savings have still to be identified.</p> <p>Increased baseline funding has been agreed with Sponsor Department, so the risk of a significant funding shortfall has been mitigated in the medium term.</p> <p>The onset of Covid-19 has rendered future funding more uncertain. Scenario planning to be developed in response.</p>

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