

Risk Management Authority

2020/21 Annual Audit Report



 AUDIT SCOTLAND

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

21 June 2021

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Key messages

2020/21 annual report and accounts

- 1 Our audit opinions on the annual accounts are unmodified.
- 2 Covid-19 has not had any significant impact on the reliability of accounting records, or the quality of audit evidence available.

Financial management and sustainability

- 3 The Covid-19 outbreak has not had a significant impact on the short-term finances of the RMA, however, the impact of this in medium/longer-term planning has still to be evaluated.
- 4 The RMA achieved financial balance in 2020/21 and is forecasting a break-even position for 2021/22.
- 5 Budget forecasts indicate that the RMA is facing a potential cumulative funding gap of £0.702m over the five years 2022/23-2026/67, using agreed 2021/22 budget expenditure as a baseline. Expenditure is mainly on staff costs and without sufficient funding the RMA may be unable to deliver certain services required by legislation.

Governance and transparency

- 6 Arrangements have been adapted to reflect the impact of the Covid-19 pandemic. We have considered these measures and have concluded that the Risk Management Authority has appropriate and effective governance.
- 7 The governance statement complies with guidance issued by Scottish Ministers and includes details of how the accountable officer is fulfilling his best value duty.

Introduction

1. This report summarises the findings from our 2020/21 audit of the Risk Management Authority (RMA).
2. The scope of our audit was set out in our Annual Audit Plan issued 4 March 2021 to 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 and of governance and transparency for the RMA.
3. The main elements of our audit work in 2020/21 have been:
 - an audit of the body's 2020/21 annual report and accounts including the issue of an independent auditor's report setting out our opinions
 - consideration of financial sustainability
 - consideration of disclosures in governance statement.
4. The global coronavirus pandemic has not had a significant impact on the RMA during 2020/21. There have been no serious implications for the services it delivers, for sickness absence levels, or for major projects and activities.

Adding value through the audit

5. 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
 - providing clear and focused conclusions on financial sustainability and the appropriateness of corporate governance arrangements including disclosures in the Governance Statement.

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 the Scottish Ministers.

7. The RMA is also responsible for establishing appropriate and effective arrangements for governance, propriety and regularity.

8. 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. 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 2020/21 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 2020/21 audit.

10. This report raises matters identified from our audit. 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](#). It sets out specific recommendations, the responsible officers and dates for implementation. It also includes any outstanding actions from last year and progress against these.

Auditor Independence

12. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

13. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2020/21 audit fee of £7,110 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

14. This report is addressed to both 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 who have been involved in our work for their cooperation and assistance during the audit.

1. Audit of 2020/21 annual report and accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

Our audit opinions on the annual accounts are unmodified.

Covid-19 has not had any significant impact on the reliability of accounting records, or the quality of audit evidence available.

Our audit opinions on the annual report and accounts are unmodified

16. The annual report and accounts for the year ended 31 March 2021 were approved by the Audit and Assurance Committee on 21 June 2021. 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 were 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.

Impact of Covid-19 pandemic on audit evidence

17. The completeness and accuracy of accounting records and the extent of information and explanations that we required for our audit were unaffected by the Covid-19 outbreak.

18. The working papers provided to support the accounts were of a good standard and the audit team received good support from finance staff which helped ensure the final accounts audit process ran smoothly.

Overall materiality is £32,000

19. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual report and accounts and is summarised in [Exhibit 1](#).

Exhibit 1

Materiality values

Materiality level	Amount
Overall materiality	£32,000 (At planning stage £34,000)
Performance materiality	£24,000
Reporting threshold	£1,600

Source: Audit Scotland

Appendix 2 identifies the main risks of material misstatement and our audit work to address these

20. [Appendix 2](#) provides our assessment of risks of material misstatement in the annual report and accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the audit team were directed. [Appendix 2](#) also identifies the work we undertook to address these risks and our conclusions from this work.

We have significant findings to report on the annual report and accounts

21. 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. We have two issues to report from the audit as detailed in [Exhibit 2](#).

Exhibit 2

Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Legal costs recoverable and related provision for non-recovery</p> <p>Legal costs of £87k were awarded to RMA by the courts in August 2019 and were included in the 2019/20 audited accounts within Trade and Other Receivables (Note 8). Recovery of the balance was considered doubtful, so an equivalent amount was included as a provision for non-recovery (Note 11). The 2020/21 accounts presented for audit continued to reflect the receivable balance and matching provision for non-recovery.</p> <p>Following further consideration during the 2020/21 audit, we determined that the provision for non-recovery element did not meet the strict accounting standards definition of a provision, and being a material amount, a prior year adjustment was necessary to correct the presentation</p>	<p>The “provision” amount has been presented as a deduction from the amount receivable within Note 8, for both 2020/21 and the prior year. A footnote to Note 8 explains that the deduction amount had previously been disclosed in Note 11 as a “Non-Current Liability – Provisions” but it has since been determined that it did not meet the strict accounting definition for a provision. This presentational change does not impact on the net assets disclosed in the Statement of Financial Position for either 2019/20 or 2020/21. There is no impact on disclosures in the Statement of Comprehensive Net Expenditure.</p>
<p>2. Statement of Cash Flows – Capital creditors</p> <p>Movements in creditors relating to capital expenditure should be included in cash flows from investing activities, rather than be included in movements in working capital.</p> <p>An £11k decrease in capital creditors was included in the movement in trade and other payables within the accounts presented for audit, rather than within cash flows from investing activities.</p>	<p>The increase in trade and other payables (working capital) within the statement of cash flows has been amended from £49k to £60k, and a decrease in property plant and equipment creditors (investment activities) of £11k recognised. The net change in cash and cash equivalents remains £89k.</p>

Source: Audit Scotland

Identified misstatements of £98,000 as detailed above were adjusted in the accounts

22. We have reviewed the nature and causes of these misstatements and have concluded that they arose from issues that have been isolated and identified in their entirety and did not require any review of our audit approach.

23. Adjustments made in the Statement of Financial Position reduced Trade and other receivables by £87k, and reduced Provisions by £87k (to £Nil), with no impact in the Statement of Comprehensive Net Expenditure or to the Net Assets position in the Statement of Financial Position.

24. Adjustments made in the Statement of Cash Flows reduced Net cash outflow from operating activities by £11k and increased Net cash outflow from investing activities by £11k, with no impact on the Net increase in cash and cash equivalents.

25. One other misstatement totalling £1,777 was identified that has not been adjusted by management in the accounts, as they consider the amount immaterial. If adjusted this would have reduced admin costs and increased Trade and other receivables by the amount mentioned.

26. 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. The gross sum of the unadjusted errors is below our materiality and has not affected our opinion.

Progress made on prior year recommendations

27. RMA management have fully implemented our one prior year audit recommendation, set out in [Appendix 1](#).

2. Financial sustainability

Financial Sustainability looks forward to the medium and long term to consider whether a body is planning effectively to continue to deliver its services

Main judgements

The Covid-19 outbreak has not had a significant impact on the short-term finances of the RMA, however, the impact of this in medium/longer-term planning has still to be evaluated.

The RMA achieved financial balance in 2020/21 and is forecasting a break-even position for 2021/22.

Budget forecasts indicate that the RMA is facing a potential cumulative funding gap of £0.702m over the five years 2022/23-2026/27, using agreed 2021/22 budget expenditure as a baseline. RMA expenditure is mainly staff costs and without sufficient funding the RMA may be unable to deliver certain services required by legislation.

Financial performance in 2020/21

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 £106,000 on a budget of £1,745,000 as highlighted in [Exhibit 3](#).

Exhibit 3

Performance against Departmental Expenditure Limit (DEL) in 2020/21

Performance	Initial DEL £m	Final DEL £m	Actual drawdown £m	Over/(under) allocation £m
Resource DEL	1.772	1.745	1.639	0.106

Source: Audited Annual Report and Accounts / Budget Allocation and Monitoring Letter 2020/21

Short term financial planning

29. 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.

30. The RMA achieved financial balance in 2020/21 and is forecasting a breakeven position for 2021/22, based on the financial budget approved by the Board in February 2021. The baseline 2021/22 budget allocation of £1,745,000 from the Sponsor Department is unchanged from the 2020/21 allocation. RMA has a medium-term financial plan which incorporates budget forecasts up to and including 2026/27.

31. In April 2021 the Board approved an updated 5 Year Financial Plan, using the agreed 2021/22 funding level as a baseline, and extending five years beyond that to financial year 2026/27. The financial impact of Covid-19 has still to be fully determined, however, management has attempted to mitigate its potential adverse effects by planning for four distinct funding scenarios;

- Funding matches forecast expenditure
- Flat line funding
- Reductions in funding of 3% pa over the 3 years 2022/23 – 2024/25
- Reductions in funding of 5% pa over the 3 years 2022/23 – 2024/25.

32. The 5 Year Financial Plan demonstrates the significant impact of future funding not being received to match forecast expenditure. Annual expenditure is forecast to increase by £235,000 between 2021/22 and 2026/27, with the cumulative funding deficit forecast at £702,000.

33. Any savings required in 2022/23 and beyond have yet to be identified. As most expenditure relates to staff costs it is acknowledged that the RMA cannot easily reduce such expenditure without impacting on its ability to deliver a range of services required by legislation, and only expected to extend further over the forecast period. We consider that the scenario approach adopted by the RMA represents a prudent and realistic view of potential financial outcomes, and a sound basis for future funding negotiations with the Sponsor Department

3. Governance and transparency

The effectiveness of scrutiny and oversight, and transparent reporting of information

Main judgements

Arrangements have been adapted to mitigate the impact of the Covid-19 pandemic. We have considered these measures and have concluded that the Risk Management Authority has appropriate and effective governance arrangements.

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

The governance arrangements and controls operating throughout the Covid19 pandemic have been appropriate

34. 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.

35. 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.

36. Openness and transparency in how a body operates and makes decisions is key to supporting understanding and scrutiny. Transparency means that the public have access to understandable, relevant and timely information about how the board is taking decisions and how it is using resources such as money, people and assets.

37. The impact of Covid-19 from March 2020 has been set out in the Governance Statement in the body's annual report and accounts. We reported in last year's annual report on the revised governance arrangements introduced by the RMA including the prompt closure of office premises and arrangements made for effective home working, and the continuation of Board and committee minutes as previously scheduled by virtual means.

38. We have confirmed that key financial controls remained largely unaffected by Covid-19 and continued to operate effectively during the year.

Business Continuity Planning

39. The current business continuity plan (BCP) was last reviewed May 2018 and is due for update in 2022. This presents a risk, as the current plan was put in place pre-Covid and may lack necessary steps to best combat the different challenges now being faced. The current BCP proved adequate in dealing with the major upheaval presented by a sudden transition to remote working. However, as the “new normal” working environment is more clearly understood, bringing forward the next review would allow RMA to reflect changes in the governance and operational environment

Recommendation 1

The next review of business continuity planning should be brought forward, to address the current governance and operational environment.

The Governance Statement complies with guidance issued by Scottish Ministers

40. HM Treasury Financial Reporting Manual 2020/21 (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 2020/21 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

41. 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.

42. 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 2020/21

2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Business Continuity Planning</p> <p>Current plans are to carry out a review of business continuity plans in 2022. We acknowledge that, in common with many public bodies, processes in place coped well with the major upheaval of a sudden transition to remote working.</p> <p>Risk – Elements of the current BCP, not directly linked with remote working arrangements, have not been subject to recent review or testing and may not operate as designed in the “new normal” working environment.</p>	<p>We recommend that the next review of business continuity planning should be brought forward, to address the current governance and operational environment</p> <p>Paragraph 39</p>	<p>Recommendation accepted. The RMA will schedule to review the BCP</p> <p>Responsible officer: Governance Officer</p> <p>Agreed date: By Q4 2021/22</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>2. Financial sustainability 2019/20 AAR</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 Covid-19 and are developing a range of scenarios to</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>Complete</p> <p>Five Year Financial Plan presented to the Board April 2021, incorporating four separate funding scenarios.</p>

Issue/risk	Recommendation	Agreed management action/timing
address different funding outcomes Risk – Insufficient funding to meet statutory service obligations of the organisation.		

Appendix 2. Significant audit risks

The table below sets out the audit risks we identified on the 2020/21 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 financial statements and those relating to our wider responsibility under the [Code of Audit Practice 2016](#).

Risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p>1. Management override of controls</p> <p>International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls.</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>Results: Testing outlined in the Annual Audit Plan was carried out as planned, on a remote basis due to ongoing Covid-19 restrictions.</p> <p>Conclusion: No instances of management override of controls were identified.</p>
<p>2. Fraud in revenue recognition</p> <p>As set out in ISA (UK)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 principal source of income is Scottish Government Grant in Aid funding. This therefore limits the opportunity for manipulation.</p>	<p>Results: We rebutted the risk of fraud over income for the reason noted under assurance procedure.</p> <p>Our audit focus was on agreeing funding amounts to Scottish Government budget allocations and subsequent revisions if applicable.</p> <p>Conclusion: No material misstatement of income identified.</p>
<p>3. Fraud in expenditure</p> <p>There is a risk that expenditure may be</p>	<p>The RMA's expenditure streams are mainly of a routine nature with low</p>	<p>Results: We rebutted the risk of fraud over expenditure for the reasons</p>

Audit risk	Assurance procedure	Results and conclusions
<p>misstated resulting in a material misstatement in the financial statements.</p>	<p>complexity. Most of the expenditure relates to staff and utility costs. The risk of expenditure manipulation is therefore reduced.</p>	<p>set out under assurance procedure.</p> <p>Expenditure testing was performed as part of routine audit work with no additional procedures planned.</p> <p>Conclusion: No material misstatement of expenditure was identified.</p>

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p>4. Financial sustainability</p> <p>The latest budget forecasts prepared by the RMA, using agreed budget expenditure 2021/22 as a baseline, identify a total cumulative funding gap of £0.702m over the 5 years 2022/23-2026/27.</p> <p>RMA expenditure is mainly staff costs and without sufficient funding the RMA may be unable to deliver certain services required by legislation.</p>	<p>We monitored available information on future SG funding policy.</p> <p>We reviewed the robustness of future savings plans.</p> <p>We reviewed the Corporate Risk Register and considered the mitigating actions in place.</p>	<p>Results: Outturn was an underspend against final budget.</p> <p>Future savings have still to be identified.</p> <p>Increased baseline funding was agreed in 2020 with the Sponsor Department, so the risk of a significant funding shortfall has been mitigated in the medium term.</p> <p>In response to greater uncertainty over future funding due to continuing impact of Covid – 19, scenario planning has been developed to inform financial planning process.</p> <p>Conclusion: The latest 5 Year Financial Plan represents a prudent and realistic view of potential financial outcomes under a range of funding scenarios.</p>

Risk Management Authority

2020/21 Annual Audit Report

Audit Scotland's published material is available for download on the website in a number of formats. For information on our accessibility principles, please visit:

www.audit-scotland.gov.uk/accessibility



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