

Risk Management Authority

Annual Audit Plan 2022/23



 AUDIT SCOTLAND

Prepared for Risk Management Authority

March 2023

Contents

Introduction	3
Financial statements audit planning	5
Wider Scope and Best Value	9
Reporting arrangements, timetable, and audit fee	10
Other matters	13
Appendix 1. Your audit team	15

Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2022/23 external audit of Risk Management Authority. The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual report and accounts, and provision of an Independent Auditor's Report
- an audit opinion on regularity and other statutory information published within the annual report and accounts including the Performance Report, Director's Report, Governance Statement and Staff Report
- consideration of arrangements in relation to financial sustainability.

Audit Appointment

2. We are pleased to be appointed as the external auditor of Risk Management Authority for the period 2022/23 to 2026/27 inclusive. You can find a brief biography of your audit team at [Appendix 1](#).

3. In the first year of the audit appointment, we invest significant time in gaining an understanding of your business and identifying and assessing the risks of material misstatement to the financial statements. While we use our initial assessment of risk to inform our planned audit approach, we keep our assessment of risks under review as the audit progresses. We will inform you of any significant changes in assessed risks and any resulting changes in our planned audit work.

4. The audit team will actively engage with you over the course of the audit to ensure our audit work continues to be focused on risk.

Adding value

5. We aim to add value to Risk Management Authority through our external audit work by being constructive and forward looking, by attending meetings of the Audit and Assurance Committee and by recommending and encouraging good practice. In so doing, we will help Risk Management Authority promote improved standards of governance, better management and decision making and more effective use of resources.

Respective responsibilities of the auditor and Risk Management Authority

6. The [Code of Audit Practice 2021](#) sets out in detail the respective responsibilities of the auditor and Risk Management Authority. Key responsibilities are summarised below.

Auditor responsibilities

7. Our responsibilities as independent auditors are established by the Public Finance and Accountability (Scotland) Act 2000 and the [Code of Audit Practice](#) (including [supplementary guidance](#)) and guided by the Financial Reporting Council's Ethical Standard.

8. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual report and accounts. We also review and report on the wider scope arrangements in place at Risk Management Authority. In doing this, we aim to support improvement and accountability.

Risk Management Authority's responsibilities

9. Risk Management Authority is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

10. Risk Management Authority has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to deliver their objectives.

Financial statements audit planning

Introduction

11. The annual report and accounts are an essential part of demonstrating Risk Management Authority's stewardship of resources and its performance in the use of those resources.

12. We focus our work on the areas of highest risk. As part of our planning process, we prepare a risk assessment highlighting the audit risks relating to each of the main financial systems relevant to the production of the financial statements.

Materiality

13. The concept of materiality is applied by auditors in planning and performing the audit, and in evaluating the effect of any uncorrected misstatements on the financial statements. We are required to plan our audit to obtain reasonable assurance that the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2022/23 audit

14. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for Risk Management Authority are set out in [Exhibit 1](#).

Exhibit 1

2022/23 Materiality levels for Risk Management Authority

Materiality	Amount
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the Risk Management Authority's operations. For the year ended 31 March 2023 we have set our materiality at 2% of gross expenditure based on the audited financial statements for 2021/22.	£35,000
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 75% of planning materiality.	£26,000

Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. £1,750

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. Our risk assessment draws on our cumulative knowledge of Risk Management Authority and its major transaction streams, key systems of internal control and risk management processes. It is informed by our discussions with management, meetings with internal audit, attendance at committees and a review of supporting information.

16. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

17. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 2](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 2

2022/23 Significant risks of material misstatement to the financial statements

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Test journals at the year-end and post-closing entries and focus on significant risk areas. Consider the need to test journal entries and other adjustments during the period. Evaluate significant transactions outside the normal course of business.

Significant risk of material misstatement	Sources of assurance	Planned audit response
		<ul style="list-style-type: none"> • Assess the adequacy of controls in place for identifying and disclosing related party relationship and transactions in the financial statements. • We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. • Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year. • Focussed testing of accounting accruals and prepayments.

Source: Audit Scotland

18. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements.

19. We have rebutted this risk as all revenue funding is provided through Grant in Aid from Scottish Government.

20. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition.

21. We have rebutted this risk as we consider there to be limited incentive and opportunity for the manipulation of expenditure recognition in the financial statements.

22. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

23. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses.

24. The area of specific audit focus is:

- We will review the implementation of IFRS 16 Leases in respect of the impact on assets, liabilities, and disclosures within the financial statements.

Wider Scope and Best Value

Introduction

25. The [Code of Audit Practice](#) sets out the four areas that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the wider scope areas in audited bodies.

Small body approach

26. The Code of Audit Practice includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by the 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.

27. We plan to apply the small body provisions of the Code to the 2022/23 audit of Risk Management Authority.

Wider scope risks

28. Our planned work on our wider scope responsibilities is risk based and proportionate and in addition to local risks we consider challenges which are impacting the public sector as a whole. We have not identified any wider scope audit risks. In 2022/23 we will consider responding to cyber security threats.

Cyber Security

29. There continues to be a significant risk of cyber-attacks to public bodies, and it is important that they have appropriate cyber security arrangements in place. A number of recent incidents have demonstrated the significant impact that a cyber-attack can have on both the finances and operation of an organisation. In 2022/23, we will consider Risk Management Authority's arrangements for managing and mitigating cyber security risks.

Duty of Best Value

30. [Ministerial Guidance to Accountable Officers](#) for public bodies and the [Scottish Public Finance Manual](#) (SPFM) explain that accountable officers have a specific responsibility to ensure that arrangements have been made to secure Best Value. We will be carrying out a high-level review to confirm that such arrangements are in place within Risk Management Authority.

Reporting arrangements, timetable, and audit fee

Reporting arrangements

31. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 3](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

32. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

33. We will provide an independent auditor's report to Risk Management Authority, the Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual report and accounts. We will provide Risk Management Authority and the Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

34. [Exhibit 3](#) outlines the target dates for our audit outputs, and we aim to issue the independent auditor's report before the statutory deadline of 31 October 2023.

Exhibit 3 2022/23 Audit outputs

Audit Output	Target date	Audit and Assurance Committee date
Annual Audit Plan	31 March 2023	N/A*
Independent Auditor's Report	19 June 2023	19 June 2023
Annual Audit Report	19 June 2023	19 June 2023

Source: Audit Scotland

*An audit strategy letter was presented to the Audit and Assurance Committee meeting on 13 February 2023. There is no formal Audit and Assurance Committee meeting between this date and the expected date of the issue of the Independent Auditor's Report and Annual Audit Report. This plan will be issued to the Audit and Assurance Committee members by 31 March 2023 for comment and noting.



Timetable

35. To support an efficient audit, it is critical that the timetable for producing the annual report and accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 4](#) that has been discussed with management.

36. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. We are identifying ways to work more efficiently to expedite the 2022/23 audits whilst at the same time maintaining high standards of quality.

37. We intend to take a hybrid approach to the 2022/23 audit with a blend of onsite and remote working. We will continue to work closely with management to identify the most efficient approach as appropriate and will keep timeframes and logistics for the completion of the audit under review. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 4 Proposed annual report and accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual report and accounts by those charged with governance.	28 April 2023
Latest submission date for the receipt of the unaudited annual report and accounts with complete working papers package.	1 May 2023
Latest date for final clearance meeting with the Director of Corporate Services.	5 June 2023
Issue of draft Letter of Representation and proposed Independent Auditor's Report.	12 June 2023
Agreement of audited and unsigned annual report and accounts.	12 June 2023
Issue of Annual Audit Report to those charged with governance.	12 June 2023
Signed Independent Auditor's Report	26 June 2023

Source: Audit Scotland

Audit fee

38. In determining the audit fee, we have taken account of the risk exposure of the Risk Management Authority and the planned management assurances in place. The proposed audit fee for 2022/23 is £9,780 as set out in [Exhibit 5](#).

39. Our fees have increased in 2022/23 and this is a reflection of the current audit market and the rising costs in delivering high quality audit work. There are increased regulatory expectations and risks placed on audit and its quality, as well as a widening in the scope of work audit must cover.

Exhibit 5

Audit fees (including VAT)

Fee component	Fees (£)
External Auditor Remuneration	23,620
Pooled costs	(370)
Contribution to Audit Scotland costs	670
Sectoral Cap Adjustment	(14,140)
2022/23 Audit fee	9,780

Source: Audit Scotland

40. In setting the fee for 2022/23 we have assumed that Risk Management Authority has effective governance arrangements and will prepare comprehensive and accurate accounts for audit in line with the agreed timetable for the audit. The audit fee assumes there will be no major change in respect of the scope of the audit during the year and where our audit cannot proceed as planned, a supplementary fee may be levied.

Other matters

Internal audit

41. It is the responsibility of Risk Management Authority to establish adequate internal audit arrangements. We will review the internal audit plan and the results of internal audit's work.

42. While we are not planning to place formal reliance on the work of internal audit in 2022/23, we will review internal audit reports and assess the impact of the findings on our financial statements and wider scope audit responsibilities.

Independence and objectivity

43. Auditors appointed by the Auditor General for Scotland or Accounts Commission must comply with the [Code of Audit Practice](#) and relevant supporting guidance. When auditing the financial statements, auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors.

44. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual '*fit and proper*' declaration for all members of staff. The arrangements are overseen by the Executive Director of Innovation and Quality, who serves as Audit Scotland's Ethics Partner.

45. The appointed auditor for Risk Management Authority is Mark Ferris, Senior Audit Manager. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of Risk Management Authority.

Audit Quality

46. Quality is at the core of public audit in Scotland and is the foundation for building consistency and confidence across all audit work. High quality audits provide assurance, add value, and can support public bodies to achieve their objectives.

47. Until 2021/22, the applicable audit quality standard was International Standard on Quality Control 1 (ISQC (UK) 1). This set out an audit practice's responsibilities for its system of quality control for audits.

48. ISQC(UK) 1 has been replaced by two new audit quality standards: Internal Standards on Quality Management (ISQM (UK) 1) applicable from 15 December 2022 and (ISQM(UK) 2) effective for the 2023/24 audits. Work is underway at Audit Scotland to meet the requirements of these quality standards.

49. Audit Scotland is committed to delivering high quality audits. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the [Code of Audit Practice](#) (and supplementary guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of England and Wales (ICAEW) have been commissioned to carry out external quality reviews.

50. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time, and this may be directed to the engagement lead.

Appendix 1. Your audit team

51. The audit team involved in the audit of Risk Management Authority have significant experience in public sector audit.

Mark Ferris
Senior Audit Manager
mferris@audit-scotland.gov.uk

Mark has over 30 years of public sector audit experience and has delivered external audit services to a range of bodies including local authorities, health boards and central government bodies

Jennifer Law
Senior Auditor
jlaw@audit-scotland.gov.uk

Jennifer has considerable experience in planning and delivering audits. Jennifer will manage the team and work alongside the Senior Audit Manager to deliver the audit.

Amanda Barclay
Auditor
abarclay@audit-scotland.gov.uk

Amanda will be responsible for undertaking the majority of the audit work, working alongside the Senior Audit Manager and Senior Auditor to deliver the audit.

Fiona McMillan
Trainee Auditor
fmcmillan@audit-scotland.gov.uk

Fiona will assist Amanda in undertaking the audit work and delivering the audit.

52. The local audit team is supported by a specialist technical accounting team, all of whom have significant experience of public bodies and work with accounting regulatory bodies.

Risk Management Authority

Annual Audit Plan 2022/23

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

For the latest news follow us on social media or [subscribe to our email alerts.](#)



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
Phone: 0131 625 1500 Email: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk