

# Risk Management Authority

Annual Audit Plan 2016/17



 AUDIT SCOTLAND

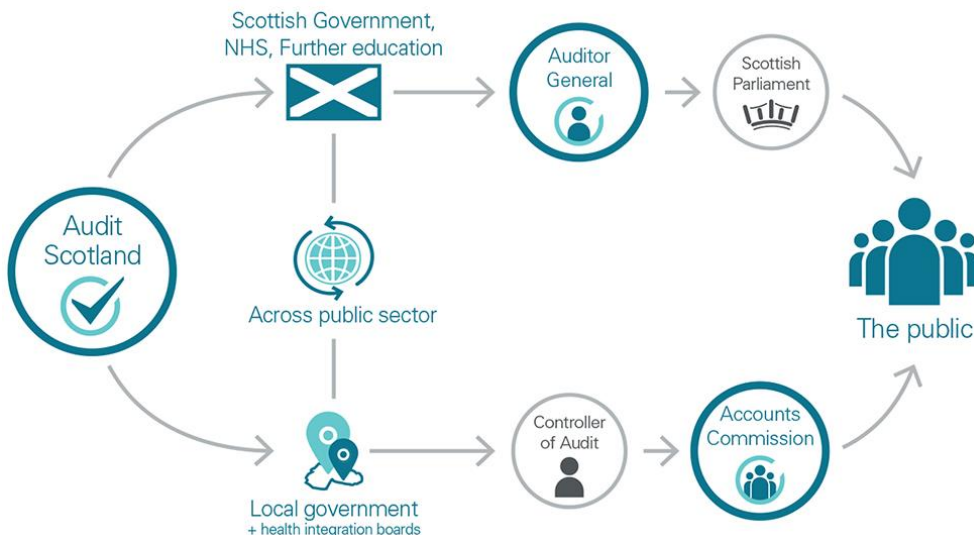
Prepared for the Risk Management Authority

February 2017

# 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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# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Audit risks

2. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for Risk Management Authority (RMA). We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1

Audit Risk	Management assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<p><b>1 Accounting for litigation claims</b></p> <p>The RMA has received a legal claim for damages and are planning to defend the case. The amount involved is likely to be material to the 2016/17 financial statements.</p> <p>There is a risk that there is insufficient audit evidence to confirm the proper accounting and disclosure of the potential liability in the financial statements .</p>	<p>Should the claim for damages remain outstanding at the year end the RMA will request its legal counsel to prepare a note on prospects in relation to this matter.</p>	<ul style="list-style-type: none"> <li>• Focused detailed testing of provisions and contingent liabilities.</li> <li>• Review of accounting estimates for reasonableness.</li> </ul>
<p><b>2 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.</p> <p>This includes the risk of management override of controls in order to change the financial position disclosed in the financial statements.</p>	<p>Due to the inherent nature of this risk management assurances are not applicable.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of journals.</li> <li>• Focused testing of accruals and prepayments.</li> <li>• Review of significant management estimates and evaluation of the impact of any variability in key assumptions.</li> <li>• Substantive testing of transactions after the year end to confirm expenditure</li> </ul>

Audit Risk	Management assurance	Planned audit work
		and income has been accounted for in the correct financial year.
<b>Wider dimension risks</b>		
<p><b>3 Financial sustainability</b></p> <p>There are pressures on the RMA's financial resources and workforce capacity from increasing workloads. This includes the increasing Order for Lifelong Restriction (OLR) caseloads and pressures on the completion of the research and training programme.</p> <p>There is a risk that the RMA does not have adequate resources and capacity to fulfil its statutory duties.</p>	<p>The RMA has drafted a medium/long term financial plan and has agreed a strategy for monitoring this risk.</p>	<ul style="list-style-type: none"> <li>• Review of the arrangements for longer term financial planning.</li> <li>• Monitoring the effectiveness of actions identified by management to mitigate this risk.</li> </ul>
<p><b>4 2016/17 Financial Statements process</b></p> <p>The completion of the financial statements audit takes place within a tight timeframe and there were delays in completing a full set of unaudited accounts in 2015/16.</p> <p>In addition there can be delays by MyCSP, the body responsible for administering the Civil Service pensions arrangements, in providing the pension information necessary for inclusion in the Remuneration Report disclosures.</p> <p>There is risk that a full set of 2016/17 financial statements is not available for audit in line with the agreed timetable.</p>	<p>The RMA has implemented a project plan to support the monitoring of progress of the production of unaudited accounts to the required timescales.</p> <p>The RMA has submitted the required data to MyCSP to enable them to complete necessary information for the Remuneration Report. The RMA informed MyCSP the deadline date for information was 28 April 2017. This request was submitted ahead of timescale therefore it is expected that MyCSP will meet their objective.</p>	<ul style="list-style-type: none"> <li>• We will keep in close contact with officers to monitor progress.</li> <li>• We will provide a financial statements evidence checklist.</li> </ul>

## Reporting arrangements

**3.** Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**4.** 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 Director of Business Performance to confirm factual accuracy.

**5.** We will provide the Risk Management Authority and the Auditor General for Scotland with an independent auditor's report giving our opinion on the financial statements. Additionally we will provide an annual report summarising the results of

the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

## Exhibit 2

### 2016/17 Audit outputs

Audit Output	Target date	Audit Committee Date
Annual Audit Plan	28 February 2017	20 March 2017
Annual Audit Report including ISA 260 requirements	by 30 June 2017	17 July 2017
Signed Independent Auditor's Report	17 July 2017	17 July 2017

### Audit fee

**6.** The audit fee for the 2016/17 audit of the Risk Management Authority is £6,770. In determining the audit fee we have taken account of the risk exposure of the Risk Management Authority, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package on 29 May 2017.

**7.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

### Responsibilities

#### Audit Committee and Accountable Officer

**8.** Audited bodies have 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 successfully deliver their objectives.

**9.** The audit of the financial statements does not relieve management or the Audit Committee, as those charged with governance, of their responsibilities.

#### Appointed auditor

**10.** Our responsibilities as independent auditor are established by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

**11.** Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements within the audited body to manage its performance, regularity and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Financial statements

**12.** The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of the Risk Management Authority and the associated risks which could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the Risk Management Authority will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**13.** We will give an opinion on the financial statements as to:

- whether they give a true and fair view of the Risk Management Authority in accordance with the Criminal Justice (Scotland) Act 2003 and directions from Scottish Ministers
- whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
- the regularity of the expenditure and income.

## Materiality

**14.** Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for the Risk Management Authority are set out in [Exhibit 3](#).



## Exhibit 3

### Materiality values

Materiality level	Amount
<b>Planning materiality</b> - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of budgeted gross expenditure per the 2016/17 Business Plan.	£12,000
<b>Performance materiality</b> - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 70% of planning materiality.	£8,000
<b>Reporting threshold</b> - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount.	£1,000



**15.** We review and report on other information published in the financial statements including the performance report, accountability report, remuneration and staff report and annual governance statement. Any issue identified will be reported to the Audit Committee.

#### Timetable

**16.** To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Audit Committee dates.

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Latest submission date of unaudited financial statements with complete working papers package	29 May 2017
Latest date for final clearance meeting with Director of Business Performance	16 June 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	By 30 June 2017
Independent auditor's report signed	17 July 2017
Annual Report and Accounts presented to the Board	17 July 2017

## Internal audit

**17.** Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an assessment of the internal audit function. Internal audit is provided by the Scottish Government Internal Audit Service.



### Adequacy of Internal Audit

18. Part of our Scottish Government external audit team's planning work includes an annual assessment of the adequacy of the internal audit function. We will liaise with our Scottish Government external audit team to confirm that the Internal Audit Service operates in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place. Subject to this confirmation, we plan to place reliance, in terms of our wider code of audit practice responsibilities, on their work.

### Areas of reliance

19. In respect of our wider dimension audit responsibilities we plan to consider the review by Internal Audit on the Risk Management Authority's Board and Committee Structure.

### Audit dimensions

20. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

## Exhibit 5

### Audit dimensions



### Financial sustainability

21. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the body's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps

### Financial management

22. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether the Risk Management Authority has arrangements in place to ensure systems of internal control are operating effectively
- whether the Risk Management Authority can demonstrate the effectiveness of budgetary control system in communicating accurate and timely financial performance
- how assurance has been obtained that the financial capacity skills are appropriate
- whether appropriate and effective arrangements for the prevention and detection of fraud and corruption have been established.

### **Governance and transparency**

**23.** Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether the Risk Management Authority can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports.
- the quality and timeliness of financial and performance reporting.

### **Independence and objectivity**

**24.** Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. 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. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.

**25.** The engagement lead for the Risk Management Authority is Elaine Barrowman, 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.

### **Quality control**

**26.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

**27.** 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 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, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

**28.** 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.

# Risk Management Authority

## Annual Audit Plan 2016/17

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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