

Risk Management Authority

Annual Audit Plan 2017/18



 AUDIT SCOTLAND

Prepared for the Risk Management Authority

December 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.

2. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance and financial sustainability.

Audit risks

3. Based on our discussions with staff, attendance at Audit Committee meetings and a review of supporting information we have identified the following main risk areas for the 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

Key audit risks

Audit Risk	Source of assurance	Planned audit work
Financial statement issues and risks		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>
<p>2 Accounting for Litigation Claim</p> <p>The RMA has been involved in legal proceedings to defend against a claim for damages. The amount involved is likely to be material to the financial statements. A final decision on the legal proceedings is due January 2018.</p> <p>There is a risk that this legal claim results in a significant</p>	<p>RMA appointed legal counsel to defend the action.</p> <p>Board and Sponsor Department have been regularly updated on the legal action.</p> <p>All submissions have been delivered and Court ruling expected January 2018.</p>	<p>Ongoing monitoring of the outcome of the legal proceedings.</p> <p>Review of the accounting treatment in the financial statements.</p>

Audit Risk	Source of assurance	Planned audit work
<p>financial liability to the RMA and possible reputational damage.</p>		
Wider dimension risks		
<p>3 Financial sustainability</p> <p>The RMA is facing increased funding pressure due to increasing workloads, particularly regarding the number of Order for Life Restrictions (OLRs). There is a high degree of uncertainty regarding the future level of funding available which presents a significant risk to the ability of the RMA to fulfil its legislative functions. A revised baseline budget for 2018/19 has been submitted to the Sponsor Department. Confirmation of the budget is expected in December 2017.</p> <p>There is a risk that the RMA does not have adequate resources to fulfil its statutory duties.</p>	<p>RMA submitted a revised baseline budget to the Sponsor Department in October 2017 and expects a decision in relation to the submission by the end of December 2017.</p>	<p>Review of the arrangements for longer term financial planning.</p> <p>Review of the 2018-19 revised baseline budget in the light of RMA resource requirements..</p>
<p>4 Information and cyber security</p> <p>Cyber security has become an increasingly important issue given the recent cyber attacks on public sector bodies. IT systems are delivered by both the Scottish Government and directly by the RMA. The RMA is in the initial stages of assessing cyber security risks involved and considering the policies and procedures required. Successful cyber attacks can result in significant disruptions to operations, loss of data and reputational damage.</p> <p>In addition, the new General Data Protection Regulation (GDPR) becomes effective from 25 May 2018 and is more extensive in scope than the current requirements of the Data Protection Act. Non compliance with the GDPR may result in financial penalties to the RMA.</p>	<p>Staff training will be provided on GDPR regulations and new cyber security processes.</p> <p>Current systems will be reviewed and modified to ensure compliance with new regulations.</p>	<p>Monitor and review progress made by the RMA in regards to addressing cyber security.</p> <p>Monitor and assess preparedness for complying with the requirements of the new General Data Protection Regulation.</p>

Reporting arrangements

4. 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.

5. 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 officer(s) to confirm factual accuracy.

6. We will provide an independent auditor's report to RMA, Scottish Parliament and the Auditor General for Scotland setting out our opinions on the annual accounts. We will provide the Accountable Officer and Auditor General for Scotland with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

Exhibit 2

2017/18 Audit outputs

Audit Output	Target date	Audit Committee Date
Annual Audit Plan	February 2018	18 December 2017
Annual Audit Report	September 2018	18 June 2017
Independent Auditor's Report	September 2018	18 June 2017

Audit fee

7. The audit fee for the 2017/18 audit of the RMA has yet to be set by Audit Scotland. In determining the audit fee we will take account of the risk exposure of the RMA, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. The 2017/18 audit fee will be based on the assumption that the RMA will maintain the operation of sound governance arrangements throughout the year and will prepare comprehensive and accurate draft accounts in line with the agreed timetable for the audit. Our audit approach assumes receipt of the unaudited 2017/18 financial statements, with a complete working papers package by 14 May 2018.

8. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises out with our planned audit activity.

Responsibilities

Audit Committee and Accountable Officer

9. 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.

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

Appointed auditor

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

12. Auditors in the public sector give an independent opinion on the financial statements and other specified information accompanying 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

13. 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 RMA and the associated risks which could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the RMA 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.

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

- whether they give a true and fair view of the financial position of the RMA as at 31 March 2018 and of its net expenditure for the year then ended;
- whether they have been properly prepared in accordance with IFRSs as interpreted and adapted by the 2017/18 FReM;
- have been prepared in accordance with the requirements of the Criminal Justice Act (Scotland) 2003 and directions made thereunder by Scottish Ministers
- the regularity of the expenditure and income.

Materiality

15. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinion in the auditor's report.

16. We calculate materiality at different levels as described below. The calculated materiality values for the RMA are set out in [Exhibit 3](#).



Exhibit 3

Materiality values

Materiality level	Amount
Planning materiality – 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 gross expenditure based on the 2017/18 budget set out in the RMA's Business Plan.	£12,000
Performance materiality – 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 75% of planning materiality.	£9,000
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 5% of planning materiality and rounded up.	£1,000

17. We review and report on other information published with 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

18. 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 annual accounts with complete working papers package	14 May 2018
Latest date for final clearance meeting with Director of Business Performance	7 June 2018
Issue of Annual Audit Report including ISA 260 report to those charged with governance	7 June 2018
Annual Report and Accounts presented to the Audit Committee	18 June 2018
Independent auditor's report signed	18 June 2018

Internal audit

19. 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 Scottish Government Internal Audit Service.

Adequacy of Internal Audit

20. 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. We have reviewed those areas as included in internal audit's 2017/18 annual plan and there are no areas we plan to place a formal reliance on.

Audit dimensions

21. Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are: financial sustainability, financial management, governance and transparency and value for money. 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 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. In the light of the volume and lack of complexity of the financial transactions, we plan to apply the small body provisions of the Code to the 2017/18 audit of the Risk Management Authority. 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.
- whether the RMA can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Independence and objectivity

22. 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 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 Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

23. The engagement lead for Audited Body 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 the RMA.

Quality control

24. 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.

25. 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 relevant supporting 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, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

26. 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.

Adding Value

27. Through our audit work we aim to add value to the RMA. We will do this by ensuring our Annual Audit Report provides a summary of the audit work done in the year together with clear judgements and conclusions on how well the RMA has discharged its responsibilities and how well it has demonstrated the effectiveness of its arrangements. Where it is appropriate we will recommend actions that support continuous improvement and summarise areas of good practice identified from our audit work.

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