

Risk Management Authority

2017/18 Annual Audit Report



 AUDIT SCOTLAND

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

18 June 2018

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

2017/18 annual report and accounts

- 1** In our opinion the Risk Management Authority's financial statements give a true and fair view of the state of the body's affairs and of its net expenditure and were properly prepared in accordance with applicable enactments and guidance.
- 2** The audited part of the remuneration and staff report, performance report and governance statement were all consistent with the financial statements.

Financial sustainability and the governance statement

- 3** We concluded that the Risk Management Authority (RMA) has adequate short, medium and longer term financial planning arrangements in place.
- 4** We concluded that the information in the governance statement complies with the guidance issued by the Scottish Ministers.

Introduction

1. This report summarises the findings from our 2017/18 audit of the RMA.
2. The scope of our audit was set out in our Annual Audit Plan presented to the 18 December 2017 meeting of the Audit Committee. This report comprises the findings from:
 - an audit of the RMA annual report and accounts
 - consideration of the financial sustainability and appropriateness of governance statement.
3. 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.
4. 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.
5. As highlighted in our 2017/18 Annual Audit Plan, due to the volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2017/18 audit of the RMA.
6. The RMA has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual report and accounts that are in accordance with the accounts direction from Scottish Ministers. The RMA 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 and the [Code of Audit Practice 2016](#), and guided by the auditing profession's ethical guidance.
8. As public sector auditors we give independent opinions on the annual report and accounts and conclusions on securing financial sustainability and appropriateness of the governance statement disclosures. In doing this, we aim to support improvement and accountability.
9. The weaknesses or risks identified are only those which have come to their 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.

10. Our annual audit report contains detail of outstanding matters raised in the 2016/17 Annual Audit Report at [Appendix 1](#) and progress made against these.

11. 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 2017/18 audit fee of £6,870 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

12. Our aim is to add value to the RMA by providing insight and foresight on financial sustainability and by identifying areas of improvement and recommending / encouraging good practice. In so doing, we aim to help the RMA promote improved standards of financial planning, better management and decision making.

13. This report is addressed to the board and the Auditor General for Scotland and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

14. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2017/18 annual report and accounts



Main judgements

In our opinion the RMA's financial statements give a true and fair view of the state of the body's affairs and of its net expenditure and were properly prepared 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.

Audit opinions on the annual report and accounts

15. The annual report and accounts for the year ended 31 March 2018 were approved by the Audit Committee on 18 June 2018. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- an unqualified opinion on regularity of expenditure and income
- 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 accounts direction
- we have nothing to report in respect of those matters which we are required by the Auditor General to report by exception.

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

Submission of annual report and accounts for audit

16. We received the unaudited annual report and accounts on 10 May 2018 in line with our agreed audit timetable.

17. 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.

Risks of material misstatement

18. [Appendix 2](#) provides a description of areas we assessed as being at risk of material misstatement at the planning stage, how we addressed them and our conclusions thereon. These risks influenced our overall audit strategy, the allocation of staff resources to the audit and how the efforts of the audit team were directed.

Materiality

19. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. When

deciding on what is material we consider both the amount and nature of the misstatement.

20. We carried out our initial assessment of materiality for the annual report and accounts during the planning phase of the audit. On receipt of the annual report and accounts we reviewed our planning materiality calculations and concluded that they remained appropriate and these are summarised in [Exhibit 1](#).

Exhibit 1

Materiality values

Materiality level	Amount
Overall materiality	£11,000
Performance materiality	£8,250
Reporting threshold	£1,000

Source Annual Audit Plan 2017/18

How we evaluate misstatements

21. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected. The final decision on this lies with those charged with governance considering advice from senior officers and materiality.

22. There were no material adjustments to the unaudited financial statements arising from our audit.

Significant findings from the audit (ISA 260)

23. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance. This is summarised at Exhibit 2 and is included in the action plan at Appendix 1 .

24. During our audit we also considered significant qualitative aspects of RMA's accounting practices including: significant financial statements disclosures, the impact of any uncertainties, misstatements in the annual report and accounts, accounting estimates and judgements and the effect of any unusual transactions on the financial statements.

Exhibit 2

Significant findings from the audit of the financial statements

Finding	Resolution
<p>1. Litigation Claim</p> <p>Last year we reported on a potential liability in relation to a legal claim made against RMA.</p> <p>This year we established that in December 2017 the litigation claim against the RMA was dismissed .</p>	<p>The RMA will maintain regular contact with legal advisors on this matter.</p>

Finding	Resolution
<p>The claimant appealed against this decision in January 2018.</p> <p>The RMA has taken legal advice and will defend against the appeal.</p> <p>The potential costs to the RMA could be significant and have considerable impact on its financial position.</p> <p>We have accepted management's evaluation of the contingent liability as reasonable at 31 March 2018.</p>	 <p>Recommendation 1 (refer appendix 1, action plan)</p>

Follow up of prior year recommendations

- 25.** We have followed up actions previously reported and assessed progress with implementation, these related to a litigation claim against the RMA, financial pressures and an unapproved Corporate Plan.
- 26.** Progress has been made against the Corporate plan and financial pressures and as such they have not been carried forward to the 2017-18 Action Plan.
- 27.** The litigation claim remains a risk to the RMA. Further detail can be seen at [Appendix 1](#)

Part 2

Financial sustainability and governance statement



Main judgements

We concluded that the RMA achieved financial balance in 2017/18 and has adequate short, medium and longer term financial planning arrangements in place.

We concluded that the information in the governance statement is consistent with the financial statements and complies with the guidance issued by the Scottish Ministers.

Financial performance in 2017/18

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 £39,000 on a budget of £985,000 in 2017/18, however this was due to the balance being funded from reserves. The purpose of this reduction in reserves was to align with the requirements of the Scottish Government. The Scottish Government agreed to revise the 2018-19 baseline budget of the RMA on the basis that the RMA would first utilise its own reserves.

Short term financial planning

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

30. The RMA submitted its 2018/19 draft budget in October 2017 with a resource allocation of £1,312,000 which is £327,000 (33%) more than the 2017/18 budget allocation (£985,000). The 2018/19 budget allocation was approved by the Scottish Government on 25 April 2018. This substantial increase was approved based on financial forecasts submitted by the RMA to the Scottish Government which showed that an increased budget allocation was required for the RMA to fulfil its statutory duties.

31. Funding from the SG is the RMA's sole source of income and there is a greater degree of certainty over future funding streams than for some other public sector organisations who are involved in income generating activities. Therefore, the main focus for the RMA is achieving a balanced financial plan to remain within their annual allocation.

Medium to long term financial planning

32. We reviewed the financial planning systems and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term.

33. The RMA has prepared financial forecasts covering 2017-2022. These forecasts were submitted to the Sponsor Department as evidence that increased funding was required. The RMA has been successful in securing the increased funding for 2018-19. It will be essential going forward that the RMA continue to be proactive when considering financial sustainability. The RMA should continue to

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

closely monitor financial budgets and maintain a dialogue with the sponsorship department on future funding plans and pressures.

34. The RMA also produces an annual business plan which outlines the work being undertaken in the year to meet its strategic aims.

35. We concluded that the RMA has adequate financial planning arrangements in place.

Governance statement

36. Our review of the governance statement assessed the assurances which are provided to the Chief Executive as Accountable Officer regarding the adequacy and effectiveness of the systems of internal control which operated in the financial year.

37. We concluded that the information in the governance statement is consistent with the financial statements and complies with the guidance issued by the Scottish Ministers.

Other matters

38. A review was conducted over the RMA's arrangements in place for addressing cyber security risks and complying with General Data Protection Regulations (GDPR).

39. Good progress has been made in developing arrangements for cyber security and complying with GDPR.

40. The RMA makes use of the Scottish Government internal audit service. The external auditors of the Scottish Government, Audit Scotland, are currently conducting a review of the adequacy of the internal audit function. We will review the findings of this assessment once the final report is published.

Appendix 1

Action Plan 2017/18

2017/18 recommendations for improvement



No.	Issue/risk	Recommendation	Agreed management action/timing
Action Plan 2017/18			
1	<p>Litigation Claim</p> <p>The RMA has received a legal claim for damages and are defending the case.</p> <p>This is potentially a significant liability for the RMA which carries with it reputational risk.</p> <p>The RMA is defending an appeal to the litigation claim which was dismissed in December 2017.</p> <p>Risk</p> <p>There is still a risk that this legal claim results in a significant financial liability to the RMA.</p>	<p>Developments in this legal case continue to be closely monitored and careful consideration be given to any future cost implications.</p>	<p>Updated response</p> <p>Following the Court's decision to dismiss the action the pursuer submitted an Appeal with an amendment to the claim for damages against the RMA reducing it from £750,000 to £75,000.</p> <p>Revised action</p> <p>The RMA will defend the Appeal lodged by the pursuer and has lodged a motion for Caution to limit legal costs. A decision on the Appeal is expected to be reached by December 2018.</p> <p>Responsible officer Paul Keoghan Director of Business Performance</p>

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. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<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>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>Testing was completed as planned.</p> <p>We have not identified any instances of management override of controls.</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 financial liability to the RMA and possible reputational damage.</p>	<p>Ongoing monitoring of the outcome of the legal proceedings.</p> <p>Review of the accounting treatment in the financial statements.</p>	<p>Reviewed the outcome of legal proceedings and the accounting treatment in the financial statements.</p> <p>The legal case was dismissed, however, it is currently being appealed by the claimant. Concluded that the contingent liability recorded in the financial statements is appropriate.</p>
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<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</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>The RMA had their revised baseline budget for 2018/19 approved and as such should have adequate resources to fulfil statutory duties.</p> <p>The RMA has adequate longer term financial planning arrangements in place.</p>

Audit risk	Assurance procedure	Results and conclusions
<p>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>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>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>	<p>The RMA has completed a cyber security assessment and engaged with the Scottish Government to monitor and improve cyber security arrangements.</p> <p>The RMA has a detailed action plan in place to prepare for complying with the requirements of GDPR. In addition, all staff have been required to complete an e-learning assessment package on GDPR and data protection.</p> <p>The RMA has made good progress in addressing cyber security risks and preparing for GDPR.</p>

Appendix 3

Summary of national performance reports 2017/18



		2017/18 Reports			
		Apr			
		May			
Common Agricultural Policy Futures programme: further update		Jun		Scotland's colleges 2017	
		Jul			NHS workforce planning
Self-directed support: 2017 progress report		Aug			
Equal pay in Scottish councils		Sept			
Transport Scotland's ferry services		Oct		NHS in Scotland 2017	
Local government in Scotland: Financial overview 2016/17		Nov			
		Dec			
		Jan			
Early learning and childcare		Feb			
Managing the implementation of the Scotland Acts		Mar			

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