Glasgow and Clyde Valley Cabinet Joint Committee

Annual Audit Report to members and the Controller of Audit

August 2015

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Key Messages

Audit of financial statements	• Unqualified independent auditor's report (audit certificate) on the 2014/15 financial statements. • Working papers were of a good standard and officers provided good support which enabled the audit team to complete on-site fieldwork by the planned target date. • All presentation and disclosure issues, identified in unaudited accounts, corrected by management in audited financial statements.
Financial management and sustainability	• The 2014/15 financial statements are the first set of annual accounts for the Glasgow and Clyde Valley Cabinet Joint Committee and cover the accounting period of 20 January 2015 to 31 March 2015. Expenditure of £68,349 was incurred in 2014/15 and was fully recovered through contributions from member authorities.
Governance and transparency	• The Cabinet had sound governance arrangements in place during 2014/15.
Outlook	• A budget of £802,000 has been approved for 2015/16, of which £743,500 relates to employee costs. 2015/16 will be the first full year of operation for the Glasgow and Clyde Valley Cabinet Joint Committee and going forward the Project Management Office will play a key role in supporting the Cabinet and member authorities in the delivery of projects and the overall City Deal programme.

Introduction

1. This is a report of our findings from the 2014/15 audit of the Glasgow and Clyde Valley Cabinet Joint Committee (the Cabinet).
2. The management of the Cabinet is responsible for:
   - preparing financial statements which give a true and fair view
   - implementing appropriate internal control systems
   - putting in place proper arrangements for the conduct of its affairs
   - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of the Cabinet, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures. Consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
6. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Audit of the 2014/15 financial statements

Audit opinions

Audit opinion	•We have completed our audit and issued an unqualified independent auditor's report.
Going concern	•The financial statements have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the Cabinet's ability to continue as a going concern.
Other information	•We review and report on other information published with the financial statements , including the management commentary and annual governance statement. We have nothing to report in respect of these statements.

Submission of financial statements for audit

7. We received the unaudited financial statements in accordance with the agreed timetable. The working papers were of a good standard, the staff provided good support to the audit team which assisted the delivery of the audit to deadline.

Overview of the scope of the audit of the financial statements

8. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan, dated June 2015.

9. As the Cabinet's first accounting period is for the three months ending 31 March 2015 and the limited number of transactions to be accounted for, we have on this occasion not raised a separate audit fee for the 2014/15 audit.

10. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services.

11. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance.

12. Appendix 1 sets out the audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

13. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

14. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. In addition, a misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example the failure to achieve a statutory requirement, or an item contrary to law).

15. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit procedures. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

16. We summarised our approach to materiality in our plan. We set materiality for 2014/15 at £660. We report all misstatements greater than £50. Performance materiality was calculated at £ 600, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality.

Evaluation of misstatements

17. No misstatements were identified during the audit.

Significant findings from the audit

18. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit:
    - The auditor’s views about significant qualitative aspects of the entity’s accounting practices, including accounting policies, accounting estimates and disclosures.
    - Significant difficulties encountered during the audit.
    - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
    - Written representations requested by the auditor.
    - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

19. A number of minor presentational and disclosure issues were identified during the course of the audit. In our view, there are no significant findings to be communicated to you in accordance with ISA 260.

Future accounting and auditing developments

Revisions to the Code of Practice

20. The financial statements of the Cabinet are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) which interprets and adapts International Financial Reporting Standards (IFRS) to the local authority context. There are no significant changes to accounting requirements introduced by the 2015/16 Code which are likely to impact on the financial statements of the Cabinet.

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Financial management and sustainability

2014/15 financial position

21. The 2014/15 financial statements are the first set of annual accounts for the Cabinet. As they cover an accounting period of the three months to 31 March 2015 they include a limited number of transactions and show total expenditure of £68,349. As this is matched by the same value of income from contributions from partner authorities, the Cabinet held no reserves at 31 March 2015.

Financial management

22. As auditors we need to consider whether bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:

- the officer responsible for finance has sufficient status to be able to deliver good financial management
- standing financial instructions and standing orders are comprehensive, current and promoted within the body
- reports monitoring performance against budgets are accurate and provided regularly to budget holders
- monitoring reports do not just contain financial data but are linked to information about performance
- members provide a good level of challenge and question budget holders on significant variances.

23. The main financial management arrangements for the Cabinet have been set down in the Assurance Framework and based on our accumulated knowledge and our review of relevant papers we conclude that the Cabinet has made appropriate financial management arrangements.

2015/16 and beyond

24. The 2015/16 budget for the Programme Management Office (PMO) was approved by the Cabinet in March 2015 at £802,000. This provides funding for a number of additional posts to support the PMO. These costs are to be fully funded by contributions from member authorities as agreed in the City Deal Agreement.

Governance and transparency

Corporate governance

25. Members and management of the Cabinet are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements.

26. The Chief Executives' Group comprises the Chief Executives from the eight member authorities and it is responsible for supervision, management and monitoring of the Project Management Office in delivering the City Deal objectives.

27. The infrastructure investment programme consists of £150m of UK and Scottish Government capital grant funding over the first five years, with another £850m dependent on the demonstration of robust governance, project delivery and value for money. This will be matched by up to £130m of capital funding from the authorities themselves.

28. The progress of the City Deal programme will be monitored by the Project Management Office and an Annual Performance Report will be produced for the cabinet in June each year. A Benefit Realisation Plan will also be developed. Every five years the programme will be subject to a Gateway Review by a National Evaluation Panel and a Commission on Economic Growth, to be appointed by the cabinet, UK and Scottish governments.

29. There are 20 infrastructure projects, 3 Innovation Programme and 3 Labour Market Programme projects which have been approved in principle, now being progressed through the business cases development and approval process.

30. The initial calculation of the capital grant to individual member authorities has been calculated as a percentage of each authority's expenditure on the approved projects, net of allocations to Regional projects. Failure to achieve Gateway Reviews would however lead to a recalculation of monies due.

31. As the lead authority Glasgow City Council will be responsible for receiving and distributing grant funding received for the City Deal programme to member authorities for agreed projects through grant agreements.

Accounting and Internal control systems

32. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk.

33. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Arrangements for the prevention and detection of fraud

34. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.

35. There were no instances of fraud or corruption reported by the Cabinet in 2014/15.

36. We assessed the arrangements for the prevention and detection of fraud during the planning phase of our audit. The Cabinet Assurance Framework sets out procedures for managing conflicts of interest to ensure that decisions are made in the interests of the region as a whole.

37. We concluded that there are effective arrangements for the prevention and detection of fraud, although it should be noted that no system can eliminate the risk of fraud entirely.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

38. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. No issues have been identified by us for inclusion in this report.

Appendix 1 – Audit risks

The table below sets out the audit risks identified in our 2014/15 Annual Audit Plan, how we addressed each risk and our judgement in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusion
First set of financial statements: The 2014/15 financial statements will be the first set of financial statements to be prepared for the Cabinet. *There is a risk that that they do not include all relevant transaction types and balances and do not comply fully with the requirements of the 2014/15 Code.*	• We liaised with finance officers during the preparation of the financial statements to ensure compliance with the requirements of the 2014/15 Code. • We have carried out an audit of the 2014/15 financial statements.	**Satisfactory**

Audit Risk	Assurance procedure	Results and conclusion
Requirements of the new accounting regulations: The Local Authority Accounts (Scotland) Regulations 2014 have introduced some changes to the contents of the financial statements, the process for approving annual accounts, and the requirements for the publication of the audited annual accounts. *There is a risk that the 2014/15 financial statements do not comply with the new accounting regulations*.	• We liaised with finance officers during the preparation of the financial statements to ensure compliance with the requirements of the 2014 Regulations. • We have carried out an audit of the 2014/5 financial statements and assessed compliance against the requirements of the 2014 Regulations.	**Satisfactory**
Management override of controls: As is the case in all entities, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. *There is a risk of misstated accounting records.*	• We conducted substantive audit work. • We ensured we ‘understood the business’ to consider the nature of accounting transactions.	**Satisfactory**

Appendix 2 – Summary of local audit reports 2014/15