



Glasgow and the Clyde Valley Strategic Development Planning Authority

Annual report on the 2011/12 audit



Prepared for Members of Glasgow and the Clyde Valley Strategic Development Planning Authority
and the Controller of Audit

October 2012

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Key messages

2011/12 audit findings

We have given an unqualified opinion on the financial statements of the Glasgow and the Clyde Valley Strategic Development Planning Authority (the Authority) for 2011/12, concluding that the financial statements give a true and fair view of the financial position of the Authority as at 31 March 2012 and its income and expenditure for the year.

The Comprehensive Income and Expenditure Statement for 2011/12 shows an accounting deficit on the provision of services of £109,538. The deficit as presented in the treasurer's foreword in the financial statements of £144,836 is different because it excludes the results of the Green Network Partnership (GNP) and also excludes pension adjustments and employee leave accrual. The budget on this basis was a deficit of £54,260 and the difference from final outturn deficit of £144,836 was largely due to severance costs associated with three employees who took early retirement from the Authority.

The Authority's balance sheet at 31 March 2012 reported net liabilities of £204,933 (2010/11 £11,258), a significant deterioration over the previous year but this is mainly due to the movement in the pension liability during 2011/12.

2011/12 and through to signing of the accounts in September has been a significant period in the work of the Authority. In 2011/12 the Authority completed the Strategic Development Plan (SDP) issuing it for consultation and then to Scottish Ministers for consideration. Since the year-end, the revised plan was formally approved by Scottish Ministers, effective from 29 May 2012 and published in July 2012.

Outlook

The Authority's 2012/13 budget is to break-even, based on income and expenditure of £592,400 (2011/12 £712,000). The budget decrease reflects the progress being made on approving the Glasgow and the Clyde Valley Strategic Development Plan. Requisition levels have decreased by 10% for 2012/13.

There continues to be pressure on financial position at requisition authorities and requisition levels for 2013/14 expect to remain at 2012/13 levels.

An Action Programme in support of the Strategic Development Plan has been prepared which will now be monitored every two years as part of the monitoring of the Strategic Development Plan.

Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of Glasgow and the Clyde Valley Strategic Development Planning Joint Committee (the Authority). The nature and scope of the audit were outlined in the Audit Plan issued to the Treasurer in June 2012 and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising. The report is divided into sections, which reflect the public sector audit model.
2. Appendix A is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the Authority understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
3. This report is addressed to the members and the Controller of Audit and should form a key part of discussions with audit committees, either prior to, or as soon as possible after, the formal completion of the audit of the financial statements. This report should be available to the Scottish Parliament, other stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
4. This report will be published on our website after consideration by the Authority. The information in this report may be used for the Accounts Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration Committee of the Scottish Parliament.
5. The Treasurer is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. The auditor is responsible for auditing and expressing an opinion on the financial statements. Weaknesses or risks identified by auditors are only those that have come to their attention during their normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

6. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
7. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
8. The accounts of the Authority are to be prepared in accordance with the Code of Practice on Local Authority Accounting 2011/12 (the 2011/12 Code).
9. Auditors review and report on, as appropriate, other information published with the financial statements, including the statement on internal financial control and the remuneration report.

Audit opinion

10. We have given an unqualified opinion on the financial statements of the Authority for 2011/12, concluding that the financial statements:
 - give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2011/12 Code, of the financial position of the Authority as at 31 March 2012 and its income and expenditure for the year then ended
 - have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Legality

11. Through our planned audit work we consider the legality of the Authority's financial transactions. In addition the Treasurer has confirmed that, to the best of her knowledge and belief the financial transactions of the Authority were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit that require to be brought to members' attention.

Going concern

12. The net liability of the Authority has increased from £11,258 as at 31 March 2011 to £204,933 as at 31 March 2012. The increase is predominantly due to a £201,000 rise in the Authority's net pension liability. A material net liability can highlight a potential going concern issue however we recognise that the appointed actuary is of the view that the asset holdings of the Strathclyde Pension Scheme and the contributions from employees and employers together with planned increases in contributions provide sufficient security over future liabilities. In

light of these factors, it is reasonable that the accounts are prepared on a going concern basis.

Statement on the system of internal financial control

13. We reviewed the statement on the system of internal financial control (SSIFC) and confirm that it complies with the 2011/12 Code. The statement reports that the Authority has in place a sound system of internal financial control that is in line with findings from our tests of controls and also with the findings of internal audit.
14. However, we consider the process put in place by the Authority to obtain the necessary assurances for the SSIFC could be improved. The statement is supported by Renfrewshire Council directors' certificates of assurances, as the Authority use these systems, but the Strategic Development Plan Manager does not provide a certificate of assurance. We consider this should be reviewed as to ensure that no local systems of financial control are omitted when preparing the certificates of assurance.

Refer Action Plan no. 1

Remuneration report

15. We are satisfied that the remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011. The disclosures within the 2011/12 financial statements include all eligible remuneration for the relevant Authority officers.

Accounting issues

16. The Authority is required to follow the 2011/12 Code. We are satisfied that the Authority prepared the 2011/12 financial statements in accordance with the 2011/12 Code.

Accounts submission

17. The Authority's financial statements were submitted to the Controller of Audit by the deadline of 30 June 2012. Final accounts preparation procedures and working papers were generally of a good standard and officers were helpful in dealing with queries during the audit.
18. We issued our report on the audit of the financial statements (in compliance with the International Auditing Standard 260) on 25 September, which indicated our intention to give an unqualified opinion on the financial statements for the Authority. The audit certificate was duly signed off on 28 September 2012.

Presentational and monetary adjustments to the unaudited accounts

19. After the accounts were submitted for audit, officers identified that severance costs had been excluded and the accounts were later revised to include costs of £145,000. A new requirement per the 2011/12 Code was for disclosures on exit packages and the remuneration report was also updated to show number of exit packages and the total cost to the Authority.

20. The main other changes resulting from the audit include: adding comparative 2010/11 figures for the Movement in Reserves Statement; adding more information on costs for the Green Network Partnership and on the loan granted by the Green Network Partnership.

Financial position

21. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
22. Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
23. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

24. The Comprehensive Income and Expenditure Statement for 2011/12 shows an accounting deficit on the provision of services of £109,538. The deficit as presented in the treasurer's foreword in the financial statements of £144,836 is different because it excludes the results of the Green Network Partnership (GNP) and also, excludes items such as pension adjustments and employee leave accrual. It is presented in this manner as the budget is prepared without these adjustments.
25. The budget for 2011/12 for the Authority (excluding GNP) was a deficit of £54,260 and the final outturn was a deficit of £144,836. This was largely due to severance costs associated with three employees who took early retirement from the Authority. These were approved by the Authority in June and September 2011.

Financial position

26. The Authority's balance sheet at 31 March 2012 reported net liabilities of £204,933 (2010/11 £11,258), a significant deterioration over the previous year but this is mainly due to the movement in the pension liability during 2011/12. The significant increase in the council's pension liability of £201,000 is attributable to lower than expected investment performance and a decrease in the discount rate. The liability is based on actuarial valuations and reflects on the triennial valuation results as at 31 March 2011.
27. Balances due to member authorities reflect accumulated 'revenue reserve' but as the Authority is not permitted to hold reserves, these funds are disclosed within the creditors' line on the face of the balance sheet (as the funds are in a surplus position and are in effect owed back to the member authorities). The balance as at 31 March 2012 was £312,893 (2010/11

£462,756) reflecting that part of the severance costs was being funded from reserves. £198,000 is earmarked for specific purposes leaving £114,000 for general purposes.

2012/13 budget

28. The Authority's 2012/13 budget (excluding the expenditure for GNP) is for a break-even position based on income and expenditure of £592,400. The budget decrease reflects the progress being made on approving the Glasgow and the Clyde Valley Strategic Development Plan. Requisition levels have decreased by 10% for 2012/13. As at 20 July 2012 there was an over spend of £2,000 which is close to the projected outturn, which remains a break-even position.

Financial forecasts beyond 2012/13

29. There continues to be pressure on the financial position at requisition authorities and requisition levels for 2013/14 will remain at 2012/13 levels. Staff costs account for two-thirds of costs; assumptions on staff costs over inflation and turnover result in projected staff costs remaining fairly constant for the next three years.
30. The financial results and position of the Authority will be reviewed as part of planning and the 2012/13 audit.

Governance and accountability

31. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
32. Through its chief executive or responsible officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
33. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
34. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

35. Following the May 2012 elections 16 new members were appointed or re-appointed to the Authority: two members from each constituent authority. The first meeting following the election took place in June, at which the Strategic Development Plan Manager provided updates on Scottish Government planning reform and approval of the Glasgow and the Clyde Valley Strategic Development Plan.

Internal control

36. 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 and the activities of internal audit.
37. With Renfrewshire Council being the host authority, all financial transactions of the Authority are processed through the financial systems of the council and are subject to the same controls and scrutiny of the council including regular reviews of internal audit. We assess the work of internal audit and where possible place reliance on their work. For 2011/12 we placed

reliance on their testing on council systems e.g. payroll and treasury management and on follow-up work on budget monitoring at the Authority.

38. In the Internal Audit Annual Report 2011/12, the Chief Auditor concluded that reasonable assurance could be placed upon the adequacy and effectiveness of the Authority's internal, risk management and governance arrangements. Internal Audit reported that improvements could be made on approval processes and we adjusted our audit approach accordingly.

Green Network Partnership

39. The Green Network Partnership (GNP) steering group approved a loan of £52,500 to a partner organisation in order to progress a project in advance of EU funding being received by the partner (EU funding generally being received in arrears for projects). While the loan is being repaid according to the agreed arrangements, the following issues were noted:
- the formal governance of the GNP, and therefore the steering group's authority to approve such a loan, requires clarification
 - there is no formally signed loan agreement between the parties
 - no interest has been charged on the loan.
40. We also note that while the results of the GNP are included in the accounts with GCVSDPA, their results are not included in budget monitoring reports to the Authority members.
41. In March 2012, Authority members agreed to ask Renfrewshire Council if it would continue in its role as administering partner until 31 March 2013. Officers advise they are planning to review the governance arrangements of the GCVSDPA in 2012/13 and to put in place clearer arrangements with regards the Green Network Partnership.

Refer Action Plan no. 2

Prevention and detection of fraud and irregularities

42. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. No frauds were reported in Internal Audit's Annual Report for 2011/12 and we have no fraud issues identified from our audit work.

Standards of conduct and arrangements for the prevention/detection of bribery and corruption

43. 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. The personnel policies of Renfrewshire Council continue to be applied. We have concluded that the arrangements at the Authority are satisfactory and we are not aware of any specific issues that we need to identify in this report.

Best Value, use of resources and performance

44. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
45. Auditors of local government bodies also have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
46. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
 - a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
47. Auditors may also consider the use of resources in services or functions, where the need for this is identified through local audit risk assessments
48. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.
49. This section includes a commentary on the performance management arrangements within the Authority and note any headline performance outcomes/ measures used by the Authority.

Management arrangements

50. The Strategic Development Planning Manager provides updates to each meeting of the Joint Committee on progress of the Strategic Development Plan. An Annual report for 2011 was submitted to members at their March 2011 meeting, which described an overview of the work undertaken including: progress on the strategic development plan, and consultation carried out; housing need and demand assessment; and the new authority website.

Status of Strategic Development Plan

51. 2011/12 and through to signing of the accounts in September has been a significant period in the work of the Authority. In 2011/12 the Authority completed the Strategic Development Plan (SDP) issuing it for consultation in June 2011 for eight weeks. The proposed plan was then issued to the Scottish Ministers in October 2011, who began their examination in December 2011. The most substantive modifications were made in relation to housing.

52. Since the year-end, the revised plan was formally approved by Scottish Ministers, effective from 29 May 2012 and published in July 2012. A six-week period for legal challenge followed but no challenge was forthcoming.

Outlook

53. An Action Programmes in support of the SDP has been prepared which will now be monitored every two years as part of the monitoring of the SDP.

Appendix A: action plan

Key Risk Areas and Planned Management Action

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|---|--|---|--------------------|
| 1 | 14 | <p>SSIFC assurances</p> <p>There is no separate assurance statement obtained from the Strategic Development Plan Manager covering systems specific to the Authority.</p> <p>Risk – insufficient arrangements around obtaining assurances for SSFIC.</p> | <p>Internal Audit will review arrangements with the Strategic Development Plan Manager in time for preparing the 2012/13 annual accounts.</p> | <p>Chief Auditor and Strategic Development Plan Manager</p> | <p>30 May 2013</p> |
| 2 | 26 | <p>Green Network Partnership</p> <p>The governance arrangements for the Green Network Partnership (GNP) require clarification.</p> <p>Risk – there may be insufficient monitoring and approval of the activities of the GNP by members</p> | <p>Renfrewshire Council officers will review the governance arrangements for both the GNP and the GCVSDPA with recommendations for improvements being proposed for Board approval.</p> | <p>Treasurer and Strategic Development Plan Manager</p> | <p>31 Dec 2012</p> |