

Glasgow City Region – City Deal Cabinet Joint Committee

2018/19 Annual Audit Report - DRAFT



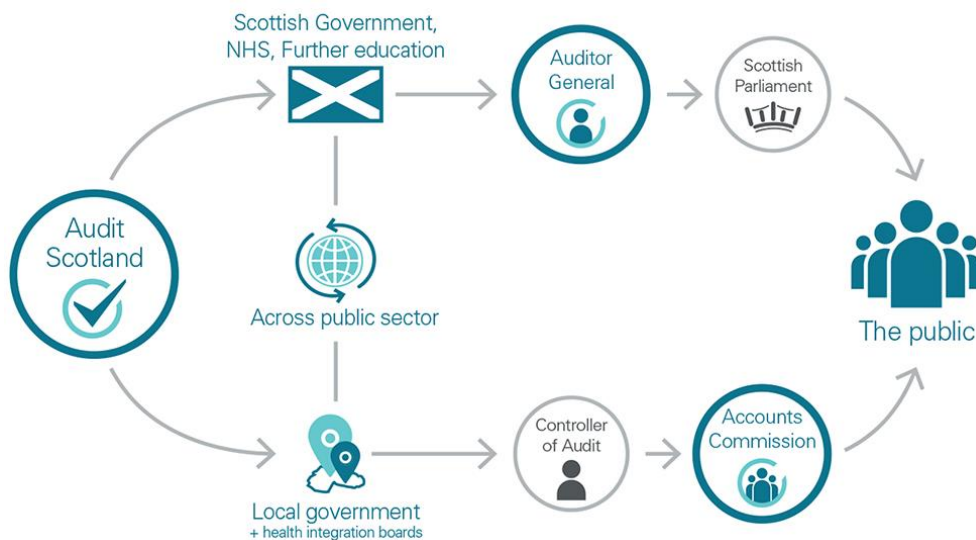
Prepared for the Glasgow City Region – City Deal Cabinet Joint Committee and the Controller of Audit

August 2019

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

2018/19 annual accounts

- 1** In our opinion, Glasgow City Region – City Deal Cabinet Joint Committee (the Cabinet) financial statements give a true and fair view and were properly prepared.
- 2** We concluded that the management commentary is consistent with the financial statements and properly prepared in accordance with the applicable requirements.

Financial sustainability and governance

- 3** We concluded that financial management is effective, with a budget process focused on the Cabinet's priorities.
- 4** We concluded that the annual governance statement is consistent with the financial statements and complies with the applicable requirements.

Introduction

1. This report summarises the findings from our 2018/19 audit of Glasgow City Region – City Deal Cabinet Joint Committee (the Cabinet).
2. The scope of our audit was set out in our Annual Audit Plan presented to the 9 April 2019 meeting of the Cabinet. This report comprises the findings from:
 - an audit of the Cabinet’s annual accounts
 - our consideration of the financial sustainability and appropriateness of the annual governance statement of the Cabinet.

Adding value through the audit

3. We add value to the Cabinet through the audit by:
 - identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements
 - reporting our findings and conclusions in public
 - sharing intelligence and good practice through our national reports ([Appendix 2](#)) and good practice guides
 - providing clear conclusions on the appropriateness, effectiveness and impact of corporate governance and financial sustainability.
4. In so doing, we aim to help the Cabinet promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

5. The Cabinet has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The Cabinet is also responsible for compliance with legislation, putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.
6. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice \(2016\)](#) and supplementary guidance and International Standards on Auditing in the UK.
7. As public sector auditors we give independent opinions on the annual report and accounts and conclude on securing financial sustainability and appropriateness of the annual governance statement disclosures. In doing this, we aim to support improvement and accountability.
8. 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. As highlighted in our 2018/19 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 2018/19 audit.

9. The weaknesses or risks identified are only those which have come to our 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. 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 2018/19 audit fee of £8,230, as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

11. This report is addressed to both the Cabinet and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

12. We would like to thank the management and staff for their cooperation and assistance during the audit.

Part 1

Audit of 2018/19 annual accounts



Main judgements

In our opinion, the Glasgow City Region – City Deal Cabinet Joint Committee (the Cabinet) financial statements give a true and fair view and were properly prepared.

We concluded that the management commentary is consistent with the financial statements and properly prepared in accordance with the applicable requirements.

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.

Audit opinions on the annual accounts

13. The annual report and accounts for the year ended 31 March 2019 were approved by the Cabinet on 13 August 2019. We reported, within our independent auditor's report:

- the financial statements give a true and fair view and were properly prepared
- the information in the management commentary is consistent with the financial statements
- the information in the annual governance statement is consistent with the financial statements and has been properly prepared in accordance with the applicable requirements
- we have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records and the information and explanations we received.

Submission of annual accounts for audit

14. We received the unaudited annual accounts on 10 June 2019 in line with our agreed audit timetable.

15. The unaudited annual 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

16. [Appendix 1](#) provides a description of those assessed risks of material misstatement in the annual accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

17. We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan.

Materiality

18. 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.

19. Our initial assessment of materiality for the annual report and accounts was carried out during the planning phase of the audit. We assess the materiality of uncorrected misstatements both individually and collectively. On receipt of the annual accounts, we recalculated materiality levels. The results are summarised in [Exhibit 1](#). The recalculated values were not significantly different to those calculated during the planning stage, and therefore did not have an impact on our audit approach.

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£23,550
Performance materiality	£17,660
Reporting threshold	£1,200

Significant findings from the audit (ISA 260)

20. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.

21. We have no significant findings to report around the qualitative aspects of the 2018/19 accounting practices.

Evaluation of misstatements

22. There were no adjustments to the unaudited annual accounts arising from our audit that were above our reporting threshold.

Internal audit

23. We reviewed the Cabinet's internal audit arrangements in accordance International Standard on Auditing (UK) 610 (Using the Work of Internal Auditors) to determine the extent we could use the work of internal audit. Under our wider dimensions audit responsibilities, we considered the findings of internal audit's reviews of the following:

- assurance provision
- risk mitigation and risk management

- programme budget monitoring and control arrangements.

24. Internal audit found that a reasonable level of assurance can be placed on the control environment around these areas and a number of improvement actions were agreed with management. We are satisfied that the Cabinet has satisfactory controls in place for these areas.

Objections

25. The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The Cabinet complied with the regulations. There were no objections to the accounts.

Part 2

Financial sustainability and governance



Main judgements

We concluded that financial management is effective, with a budget process focused on the Cabinet's priorities.

We concluded that the annual governance statement is consistent with the financial statements and complies with the applicable requirements.

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.

Financial performance in 2018/19

26. The main financial objective of the Cabinet is to ensure that the financial outturn of the Project Management Office (PMO) for the year is within the agreed budget. The Cabinet had an underspend of £62,813 against a budget of £1,240,436 in 2018/19.

Short term financial planning and monitoring

27. The Cabinet is funded through contributions from member authorities on an annual basis according to an agreed formula. In April 2019, the Cabinet agreed its 2019/20 budget and recharges to member authorities of £1,289,002, which is £48,566 (4%) more than the 2018/19 budget allocation. This increase is mainly due to employee pay award inflation and costs in respect of Gateway Review 1.

28. Contributions from member authorities are the Cabinet's sole source of income and there is more certainty over future funding streams than for some other public sector organisations that are involved in income generating activities. Therefore, the focus of the Cabinet is to remain within their annual budget.

29. The Cabinet meets every eight weeks and programme status update reports are presented at each meeting. These reports include a section on the financial performance of the PMO. This includes a projection of the year-end position and an explanation of any movements from the previously reported position.

30. We are satisfied with the arrangements in place for budgetary monitoring and control.

Annual governance statement

31. We reviewed the annual governance statement and assessed the assurances provided to the Executive Director of Finance (as Accountable Officer) regarding the adequacy and effectiveness of the Cabinet's system of internal control which operated in the financial year.

32. There are no significant governance issues identified within the Cabinet's annual governance statement. We concluded that the disclosures in the annual governance statement were consistent with the financial statements and in accordance with the relevant regulations and guidance.

Other governance matters

33. The Glasgow City Region City Deal (the City Deal) is a 20-year deal with the Scottish and UK Governments. Funding provided by the Scottish and UK Governments will be paid over the 20-year period in five-year tranches, subject to the City Deal delivering agreed outputs and outcomes as demonstrated through Gateway Reviews.

34. Gateway Review 1 is due to take place in December 2019. If the City Deal does not pass this review, the next tranche of City Deal Infrastructure Funding (£250 million for 2021/22 to 2024/25) is at risk.

35. The Cabinet has been preparing for the Gateway Review 1 since October 2017 and regular progress reports have been submitted to the Cabinet. We have considered these arrangements and are satisfied that the Cabinet is making good progress with its preparations for Gateway Review 1. We will consider this further during our 2019/20 audit.

36. The following developments in the Cabinet's governance and strategic arrangements are anticipated in 2019:

- updated City Deal Programme Business Case
- updated Assurance Framework and Risk Management Strategy
- completion of an internal Programme Review
- updated Regional Economic Strategy.

37. From discussions with officers, we are satisfied with the progress being made with these developments. This is something that we will consider in more detail during our 2019/20 audit.

Appendix 1

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
Financial statements issues and risks		
1 Risk of management override of controls 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 to change the position disclosed in the financial statements.	Detailed testing of journal entries. Assessment of the estimation methodology applied by the Cabinet and the reasonableness of the estimates contained in the financial statements. Evaluation of significant transactions that are outside the normal course of business.	Journal entries were reviewed as part of the substantive testing of the financial statements. No evidence to suggest management override of controls was identified. No accounting estimates were made in preparing the financial statements. No significant transactions that are outside the normal course of business were identified during audit testing. No fraud concerns were identified in respect of management override of controls.
2 Risk of fraud over expenditure Most public sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure.	Analytical procedures on expenditure streams. Detailed testing of expenditure transactions focusing on the areas of greatest risk.	Analytical procedures were carried out on expenditure items. A sample of expenditure transactions was tested. No evidence to suggest fraud over expenditure was identified.
Wider dimension issues and risks		
4 Gateway Review process The Cabinet has identified that the single biggest risk to the City Deal programme is the failure to meet the criteria for the Gateway Review process. If the Glasgow City Region fails to pass the Gateway Review 1 in December 2019 then the next tranche of City Deal Infrastructure Funding (£250 million for 2020/21-2024/25) is at risk.	Review of the Local Evaluation Plan. Review of the planned reports. Assessment of the Cabinet's progress in the implementation of any recommendations arising from these reports.	From our review of the Local Evaluation Plan (LEP) and key milestone reports and consideration of progress on implementation of improvement recommendations, we are satisfied with the Cabinet's arrangements for preparing for Gateway Review 1.

Appendix 2

Summary of national performance reports 2018/19

2018/19 Reports

Local government in Scotland: Challenges and performance 2018		Apr	
Councils' use of arm's-length organisations		May	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		Jun	
		Jul	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		Aug	 Major project and procurement lessons
Children and young people's mental health		Sept	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		Oct	
Health and social care integration: update on progress		Nov	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		Mar	 Local government in Scotland: Challenges and performance 2019

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