Glasgow City Region – City Deal Cabinet Joint Committee

2021/22 Annual Audit Report – DRAFT

AUDIT SCOTLAND

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

February 2023

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2021/22 annual accounts

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Financial sustainability and governance

4 Financial management is effective, with a budget process focussed on the Cabinet's priorities.

5 The annual governance statement is consistent with the financial statements and complies with applicable requirements

Introduction

1. This report summarises the findings from our 2021/22 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 16 June 2022 meeting of the Cabinet. This report comprises the findings from:

- an audit of the Cabinet's annual accounts
- our consideration of financial sustainability and appropriateness of the annual governance statement.

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
- sharing intelligence and good practice through our national reports (**Appendix 1**) and good practice guides
- providing clear conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability

4. 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.

6. 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.

7. 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. Local government bodies have a responsibility to have arrangements in place to demonstrate Best Value in how they conduct their activities. Our audit work on the Cabinet's Best Value arrangements is focussed on the body's use of resources to secure financial sustainability.

8. As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on the appropriateness and effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position and arrangements for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice 2016 and supplementary guidance.

9. 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 2021/22 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 2021/22 audit.

10. This report raises matters from our audit. 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.

Auditor Independence

11. 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 comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

12. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services and therefore the 2021/22 audit fee of £8,850 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

13. 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.

Audit appointment from 2022/23

14. The Accounts Commission is responsible for the appointment of external auditors to local government bodies. External auditors are usually appointed for a five-year term either from Audit Scotland's Audit Services Group or a private firm of accountants. The current appointment round was due to end in 2020/21 but this was extended for a year so that 2021/22 is the last year of the current appointment round.

15. The procurement process for the new round of audit appointments was completed in May 2022. From financial year 2022/23 Ernst & Young will be the appointed auditor for the Cabinet. We are working closely with the new auditors to ensure a well-managed transition.

16. A new Code of Audit Practice applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the Code issued in May 2016.

17. There are a number of significant changes introduced by the new Code, namely the integration of Best Value work into wider scope audit work and the audit of Best Value across the Integration Joint Boards.

18. We would like to thank Cabinet members, senior officers and other staff, particularly those in finance for their co-operation and assistance over the last six years.

Part 1. Audit of 2021/22 annual accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

The Cabinet's financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.

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

We received the unaudited annual accounts on 30 June in line with our agreed audit timetable. In light of the cumulative impact of the Covid-19 pandemic, combined with the need to maintain the quality of our audit in a remote working environment, our 2021/22 Annual Audit Plan recognised that the accounts would be audited beyond the target date of 31 October 2022.

Our audit opinions on the annual accounts are unmodified

19. The annual accounts for the year ended 31 March 2022 were approved by the Cabinet on 14 February 2023. As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the management commentary and the annual governance statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

The Covid-19 pandemic did not impact on audit evidence

20. The completeness and accuracy of accounting records and the extent of information and explanations that we required for our audit were not affected by the Covid19 pandemic.

21. The unaudited annual accounts and working papers were of a good standard and the audit team received good support from finance staff which helped ensure the final accounts audit process ran smoothly.

There were delays in auditing the annual accounts due to resourcing priorities

22. For 2021/22, the submission deadline for local government bodies audited annual accounts had been set at 30 November 2022.

23. The unaudited annual accounts were received in line with our agreed audit timetable on 27 June 2022. In recognition of the cumulative impact of Covid-19, our Annual Audit Plan set out that we expected that the annual accounts would not be audited by the target date of 31 October 2022, as set out in the audit planning guidance. We have worked with officers throughout the audit process to ensure the successful completion of the audit as timeously as possible.

Public inspection requirements were not fully met, however there were no objections raised to the annual accounts

24. Regulation 9 of the Local Authority Accounts (Scotland) Regulations 2014 requires local government bodies to give public notice on their websites by 17 June (at the latest) of the right to inspect its annual report and accounts. The accounts should be available for inspection from 1 July at the latest, for a period of 15 working days from the date specified in the notice.

25. As part of our audit, we confirmed the Cabinet's accounts were available for inspection from 1 July, in line with the regulations. However, the public inspection notice for the Cabinet's accounts did not appear on the administering authority's website until 20 June 2022, three days after the deadline set in the regulations. No objections were raised to the 2021/22 annual accounts.

Overall materiality is £31,000

26. Our initial assessment of materiality was carried out during the planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual accounts and is summarised in Exhibit 1.

Exhibit 1
Materiality values

Materiality level	At planning stage	Revised
Overall materiality	£24,000	£31,000
Performance materiality	£18,000	£23,250
Reporting threshold	£1,200	£1,500

Source: Audit Scotland

27. In determining performance materiality we considered the following factors: any new risks identified in 2021/22, the history of errors in previous financial years, the complexity of accounting arrangements and the risk profile of the body generally.

28. The overall scope of the audit was developed to incorporate the significant assessed risks of material misstatement included within Exhibit 3, by ensuring appropriate testing of transactions to identify any instances of management override of controls.

We have one significant finding to report on the annual accounts

29. 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. We have one matter to report as noted in Exhibit 2.

Exhibit 2
Significant findings from the audit of the financial statements

Issue	Resolution
1. Miscoding of grant income	
Grant income of £809,315 was incorrectly classified in the unaudited accounts as expenditure re-imbursement from participating local authorities.	Primary statements and related notes in the audited accounts were updated to correctly classify grant income received.

Source: Audit Scotland

30. We have obtained audit assurances over the identified significant risks of material misstatement to the financial statements. Exhibit 3 sets out the significant risks of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan. It summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 3
Significant risks from the audit of the financial statements

Audit risk	Assurance procedure	Results and conclusions
Risk of material misstatement due to fraud caused by the management override of controls	Detailed testing of journal entries, targeted on higher risk journals that may be indicative of fraud.	Our work did not identify any issues or material errors that required adjustments within the financial statements.

Audit risk	Assurance procedure	Results and conclusions
International Auditing Standards require that audits are planned to consider the risk of material misstatement in the financial statements caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of fraud due to the management override of controls	Focussed testing of accounting accruals and prepayments. Evaluation of significant transactions outside the normal course of business.	**Our work did not identify any evidence of management override of controls.**

Identified misstatements of £809,315 were adjusted in the accounts and we did not need to revise our audit approach

31. Total identified misstatements were £809,315, relating to the misclassification of grant income as set out at Exhibit 2.

32. We have reviewed the nature and causes of the misstatement and have concluded that it arose from isolated issues and identified in their entirety and do not indicate further systemic error, therefore we did not need to revise our audit approach.

33. Adjustments made in the audited accounts had no effect on net expenditure in the Comprehensive Income and Expenditure Statement and had no effect on net assets in the Balance Sheet.

34. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected, although the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality. Management have adjusted all identified misstatements above our reporting threshold; there are no unadjusted errors to report.

Part 2. Financial sustainability and governance

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services. Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making.

Main judgements

Financial management is effective, with a budget process focussed on the Cabinet's priorities.

The annual governance statement is consistent with the financial statements and complies with applicable requirements.

Financial performance in 2021/22

35. 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 recorded an underspend of £327,580 against the revised 2021/22 budget, principally due to delayed utilisation of funding and funding being secured in respect of salary costs.

36. Excluding the Health Foundation restricted funding of £128k, the Cabinet had a significant surplus of £1,083k that was carried forward into 2022/23. Earmarked spend of £705k was identified during 2022/23 to bring the projected surplus down to £378k.

Short term financial planning and monitoring

37. The Cabinet is mainly funded through contributions from member authorities on an annual basis according to an agreed formula. In February 2022, the Cabinet approved its 2022/23 budget and recharges to member authorities at £1,568,478, which represented a reduction of £305,620 (16%) on the revised 2021/22 budget allocation.

38. Contributions from member authorities provides the Cabinet with a level of certainty over future funding streams that is greater than for most other public sector organisations involved in income generating activities. The focus of the Cabinet PMO is therefore to operate within their annual budget.

39. The Cabinet meets quarterly and programme status update reports are presented at each meeting. These reports include a section on the financial performance of the PMO, with a projection of the year end position and explanations for any movements from the previously reported position.

40. We consider the arrangements in place for budgetary monitoring and control to be satisfactory.

Ongoing impact of the Covid-19 pandemic

41. The pandemic had no real impact on the PMO's financial plans during 2021/22.

42. The pandemic continues to affect the progress of the City Deal programme, mainly around increasing costs for materials and challenges in the sourcing of services and resources. As part of its quarterly performance reporting arrangements the Cabinet continues to monitor progress against its updated programme plan and the Regional Economic Recovery Plan.

Annual governance statement

43. 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.

44. There are no significant governance issues identified within the Cabinet's annual governance statement.

National performance audit reports

45. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Appendix 1 highlights a number of the reports published in 2021/22.

Appendix 1: Summary of 2021/22 national performance reports and briefing papers

May

Local government in Scotland Overview 2021

June

Covid 19: Personal protective equipment

July

Community justice: Sustainable alternatives to custody

September

Covid 19: Vaccination programme

January

Planning for skills

Social care briefing

February

NHS in Scotland 2021

March

Local government in Scotland: Financial Overview 20/21

Drug and alcohol: An update

Scotland’s economy: Supporting businesses through the Covid 19 pandemic

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www.audit-scotland.gov.uk/accessibility

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