

Glasgow City Region – City Deal Cabinet Joint Committee

2020/21 Annual Audit Report – DRAFT



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

February 2022

Contents

Key messages	3
Introduction	4
Part 1. Audit of 2020/21 annual accounts	6
Part 2. Financial sustainability and governance	9
Appendix 1. Significant audit risks	12
Appendix 2. Summary of 2020/21 national performance reports	13

Key messages

2020/21 annual accounts

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.

The Covid 19 pandemic did not impact on the accounting timetable, or on audit evidence, however, there were delays in auditing the annual accounts due to resourcing priorities.

Financial sustainability and governance

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

Introduction

1. This report summarises the findings from our 2020/21 audit of Glasgow City Region – City Deal Cabinet Joint Committee.
2. The scope of our audit was set out in our Annual Audit Plan presented to the 1 June 2021 meeting of the Cabinet. This report comprises the findings from:
 - an audit of the Cabinet’s annual accounts
 - our consideration of financial sustainability
3. The global coronavirus pandemic has had a minimal impact on the Cabinet during 2020/21 and was not identified as a specific risk in our Annual Audit Plan.

Adding value through the audit

4. 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 2) and good practice guides
 - providing clear conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability
5. 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

6. 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.
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 report and 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 2020/21 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 2020/21 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. 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 2020/21 audit fee of £8,600 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

12. 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.

Part 1. Audit of 2020/21 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.

The Covid 19 pandemic did not impact on the accounting timetable, or on audit evidence, however, there were delays in auditing the annual accounts due to resourcing priorities.

Our audit opinions on the annual accounts are unmodified

13. The annual accounts for the year ended 31 March 2021 were approved by the Cabinet on 15 February 2022. 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

14. 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.

15. 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

16. Covid-19 had a negligible impact on the preparation of the annual accounts by officers, and the unaudited annual accounts were received in line with our

agreed audit timetable on 25 June 2021. As a result of the continuing impact of Covid-19, the statutory deadline for certifying the annual accounts was extended to 30 November 2021, similar to the arrangements applied for 2019/20. However, Audit Scotland, in response to the risks to public services and finances from COVID-19 across the full range of audit work, viewed 2020/21 as a transitional year in moving back to pre Covid-19 audit delivery timetables. Resourcing of the financial statements audit was therefore delayed until December 2021, to accommodate other resourcing priorities.

Overall materiality is £24,300

17. 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	Amount
Overall materiality	£24,300
Performance materiality	£18,200
Reporting threshold	£1,200

Source: Annual Audit Plan 2020/21

Appendix 1 identifies the main risks of material misstatement and our audit work to address these

18. [Appendix 1](#) provides our assessment of risks of material misstatement in the annual accounts and identifies the work we undertook to address these risks and our conclusions from this work. These risks influence our overall audit strategy, the allocation of staff resources to the audit and inform where the efforts of the team are directed.

We have one significant finding to report on the audit of the annual accounts

19. 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 significant finding to report from the audit, as described in [Exhibit 2](#).

Exhibit 2

Significant findings from the audit of the financial statements

Issue	Resolution
<p>1. Income – 2019/20 Interest</p> <p>Income in the unaudited accounts included £101,296 for interest due to the Cabinet in relation to £60m of City Deal Funding received by Glasgow City Council. However, £30m of that funding was received by the council in 2019/20, and £49,861 of the interest related to the prior year.</p> <p>The prior year element of interest income represents a material error or omission in relation to the Cabinet's accounts therefore requires to be treated as a Prior Year Adjustment i.e. relevant 2020/21 figures to be amended, and relevant comparative figures for 2019/20 to be restated.</p>	<p>2020/21 income figures amended and comparative figures for 2019/20 restated accordingly. A prior year adjustment disclosure note has also been included in the accounts.</p>

Source: Audit Scotland

Identified misstatements of £49,861 were adjusted in the accounts, and we did not need to revise our audit approach

20. Total misstatements identified were £49,861.

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

22. 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.

23. 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.

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 2020/21

24. 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 £52,266 against the agreed budget in 2020/21, due to savings in employee costs from vacancies and temporary redeployments on administering business grants.

25. Additional grant income of £113,209 and interest income of £101,296 was received so that, together with funding of £7,604 brought forward from the prior year, a balance of £274,326 has been carried forward into 2021/22 and will be used to meet agreed priorities.

Short term financial planning and monitoring

26. The Cabinet is funded through contributions from member authorities on an annual basis according to an agreed formula. In April 2021, the Cabinet approved its initial 2021/22 budget and recharges to member authorities at £1,289,307, which represented an uplift of £21,000 (1.7%) on the 2020/21 budget allocation.

27. Contributions from member authorities are the Cabinet's main source of income, so that there is more certainty over future funding streams 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.

28. 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, with a projection of the year end position and explanations for any movements from the previously reported position.

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

Impact of the Covid-19 pandemic

30. Impact of the pandemic on the PMOs financial plan has been minimal with any Covid 19 related costs contained within the final 2020/21 budget of £1,267,902, with an underspend against budget of £52,266 resulting from PMO staff having to be reassigned to assist on business grant processing. No potential impact on the 2021/22 financial plan has been identified.

31. Covid 19 restrictions during the year did however impact on the delivery of individual projects across the City Deal. The programme risk register was updated accordingly to reflect the increased risks from delays to individual projects and to the programme's wider objectives, an updated programme plan was approved by the City Region Cabinet in late 2020, and in December 2020 the Cabinet approved a Regional Economic Recovery Plan which set out a regional response to the economic impact of the pandemic. That plan was developed through engagement with the eight member authorities and their partner organisations, and identified 10 high level actions.

32. Challenges identified by the Cabinet included public consultation, delays in project design, procurement and construction, increased costs, member authority capacity and achievement of planned project scope, outcomes and economic benefits.

Annual governance statement

33. 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.

34. There are no significant governance issues identified within the Cabinet's annual governance statement. The effect of Covid 19 on the control environment was assessed by Internal Audit during 2020/21 across Glasgow City Council and its related bodies, and was found not to have been significant.

Other governance matters

35. The impact of Covid 19 on the Cabinet's governance arrangements during 2020/21 has been minimal. The April 2020 meetings of the Chief Executive's Group and the Cabinet were cancelled, and decisions required to be made at these meetings were taken by email, however, since then the normal cycle of meetings has operated on schedule by teleconference.

36. In August 2020, the Cabinet approved a formal Scheme of Delegations which included further delegation from Cabinet to the Chief Executives Group and to the Director of Regional Economic Growth, with these changes aimed at enabling the timeous processing of approvals for the expected increase in the volume of FBCs and Change Controls submitted to the PMO in the next phase of the City Deal Programme Delivery.

37. The Assurance, Governance and Programme Management Framework 2021 was approved by the Cabinet retrospectively (9 Feb 2021), endorsing various changes made to the Framework during 2020/21.

38. On 15th May 2020 the UK and Scottish Governments approved the first Glasgow City Region Deal Gateway Review releasing additional funding of £250 million over the five years commencing 2020/21. Access to the funding was contingent on a review being completed of certain arrangements within the Assurance Framework. That review was completed and actions to implement required changes were included in the Cabinet's Annual Implementation Plan (AIP) 2020/21, approved by June 2020 Cabinet.

39. Monitoring of the AIP is a condition of the City Region Deal Grant Offer Letter. As at 16th March 2021, of the 71 City Deal actions within the AIP, 7 had not been or were no longer expected to be completed within the target timescale, or were encountering issues with their implementation. Of the 48 actions within the AIP relating to the Regional Economic Strategy, only 2 were encountering issues with their implementation. Appropriate revised timescales were agreed by Chief Executives Group 25th March 2021.

National performance audit reports

40. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Appendix 2 highlights a number of the reports published in 2020/21.

Appendix 1. Significant audit risks

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.

Risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>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.</p>	<p>Review the appropriateness of journal entries and other adjustments recorded in the general ledger and financial statements.</p> <p>Evaluate significant transactions that are outside the normal course of business.</p> <p>Review accounting estimates if reported in the accounts.</p>	<p>Journal entries were reviewed as part of the substantive testing of the financial statements. We did not identify any inappropriate journal entries.</p> <p>No significant transactions that are outside the normal course of business were identified during audit testing.</p> <p>No accounting estimates were used in preparing the financial statements.</p> <p>Conclusion: No fraud concerns were identified in respect of management override of controls.</p>

Appendix 2. Summary of 2020/21 national performance reports

April

[Affordable housing](#)

June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

July

[The National Fraud Initiative in Scotland 2018/19](#)

January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

February

[NHS in Scotland 2020](#)

March

[Improving outcomes for young people through school education](#)

May

[Scotland's colleges 2020](#)

June

[Social care](#)

October

[Community empowerment: Covid-19 update](#)

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