Item 4

CLYDE MUIRSHIEL PARK AUTHORITY

To: Joint Committee

On: 27 May 2016

Report by: The Treasurer

Heading: Annual Audit Plan 2015-16

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1. **Summary**

1.1 The Annual Audit Plan 2015-16 for the Joint Committee is submitted for Members' information. The Plan outlines Audit Scotland's planned activities in their audit of the 2015-16 financial year.

1.2 The Annual Audit Plan 2015-16 includes a section on Audit Issues and Risks. Within this section Audit Scotland have identified a risk of "Management Override of Controls". This risk is included in the audit plans of all bodies which Audit Scotland are working with in light of international standards on auditing. The inclusion of this risk is not a reflection of increased risk within Clyde Muirshiel Park Authority. Audit Scotland have confirmed that they have not found any issues on this in previous years.

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2 **Recommendations**

2.1 The Joint Committee is asked to note the Annual Audit Plan 2015-16 by Audit Scotland.

AUDIT SCOTLAND

Clyde Muirshiel Park Authority

Annual Audit Plan 2015/16

Prepared for Clyde Muirshiel Park Authority Joint Committee

May 2016

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The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies (www.audit-scotland.gov.uk/about/ac/). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General (www.audit-scotland.gov.uk/about/).

The Accounts Commission has appointed Anne McGregor as the external auditor of Clyde Muirshiel Park Authority Joint Committee for the period 2011/12 to 2015/16.

This report has been prepared for the use of CMPA and no responsibility to any member or officer in their individual capacity or any third party is accepted.

Contents

Summary

Introduction

1. Our audit is focused on the identification and assessment of the risks of material misstatement in Clyde Muirshiel Park Authority's (CMPA) financial statements.

2. This report summarises the key challenges and risks facing CMPA and sets out the audit work that we propose to undertake in 2015/16. Our plan reflects:
   - the risks and priorities facing CMPA
   - current national risks that are relevant to local circumstances
   - the impact of changing international auditing and accounting standards
   - our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland
   - issues brought forward from previous audit reports.

Summary of planned audit activity

3. Our planned work in 2015/16 includes:
   - an audit of the financial statements and provision of an opinion on whether:
     - they give a true and fair view of the state of affairs of CMPA as at 31 March 2016 and its income and expenditure for the year then ended
     - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
   - a review and assessment of CMPA's governance and performance arrangements and financial position and
   - provision of the annual report on the audit addressed to CMPA and the Controller of Audit.

Responsibilities

4. The audit of the financial statements does not relieve management or CMPA, as the body charged with governance, of their responsibilities.

Responsibility of the appointed auditor

5. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

6. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements set in place by the audited body to ensure the proper conduct of its financial affairs and to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Responsibility of the Treasurer

7. It is the responsibility of the Treasurer, as the appointed "proper officer", to prepare the financial statements in accordance with relevant legislation and the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This means:

   - maintaining proper accounting records
   - preparing financial statements which give a true and fair view of the state of affairs of CMPA as at 31 March 2016 and its expenditure and income for the year then ended.

Format of the accounts

8. The financial statements should be prepared in accordance with the Code, which constitutes proper accounting practice.

Audit Approach

Our approach

9. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of CMPA. We also consider the key audit risks and challenges in the local government sector generally. This approach includes:

- understanding the business of CMPA and the risk exposure which could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how CMPA will include these in the financial statements
- assessing and addressing the risk of material misstatement in the financial statements
- determining the nature, timing and extent of the audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements give a true and fair view.

10. We have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus audit testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Planned management action being relied on for 2015/16 includes:

- comprehensive closedown procedures for CMPA financial statements accompanied by a timetable issued to all relevant staff
- clear responsibilities for preparation of financial statements and the provision of supporting working papers
- delivery of unaudited financial statements to agreed timescales with a comprehensive working papers package
- completion of the internal audit programme for 2015/16.

11. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. Internal audit services are provided by the Internal Audit section of Renfrewshire council. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function to determine whether it has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

12. For our work on the financial statements we plan to place formal reliance on internal audit's work on the annual stock-take. In respect of our wider governance audit work we also plan to review the findings in internal audit's annual audit report.

Materiality

13. 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. 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). In the event of such an item arising, its materiality has to be viewed in a narrower context; such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.

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

15. Based on our knowledge and understanding of CMPA we have set our planning materiality at £12,000. (1% of budgeted gross expenditure).

16. We set a lower level, known as performance materiality, when defining our audit procedures. This is to ensure that uncorrected and undetected audit differences do not exceed our planning materiality. This level depends on professional judgement and is informed by a number of factors including:

- extent of estimation and judgement within the financial statements
- nature and extent of prior year misstatements
- extent of audit testing coverage.

17. For 2015/16 performance materiality has been set at £9,000. We will report, to those charged with governance, all misstatements identified which are greater than £1,000.

Reporting arrangements

18. The Local Authority Accounts (Scotland) Regulations 2014 require that the unaudited annual accounts are submitted to the appointed external auditor no later than 30 June each year. The authority (or a committee whose remit includes audit or governance) is required to consider the unaudited annual accounts at a meeting by 31 August.

19. Local authorities must publish the unaudited accounts on their websites and give public notice of the inspection period.

20. The 2014 regulations require CMPA Joint Committee (or a committee whose remit includes audit or governance) to meet by 30 September to consider whether to approve the audited annual accounts for signature. Immediately after approval, the annual accounts require to be signed and dated by specified members and officers and then provided to the auditor. The Controller of Audit requires audit completion and issue of an independent auditor's report (opinion) by 30 September each year.

21. CMPA is required to publish on its website its signed audited annual accounts, and the audit certificate, by 31 October. The annual audit report is required to be published on the website by 31 December.

22. A proposed timetable for the audit of the 2015/16 financial statements is included at Exhibit 1 below.

Exhibit 1: Financial statements audit timetable

Key stage	Date
Consideration of unaudited financial statements by those charged with governance	27 May 2016
Latest submission date of unaudited financial statements with complete working papers package	27 June 2016
Progress meetings with lead officers on emerging issues	As and when required during audit process
Latest date for final clearance meeting with officers	5 August 2016
Agreement of audited unsigned financial statements, and issue of proposed Annual Audit Report which includes the ISA 260 report to those charged with governance	10 August 2016
CMPA Joint Committee pre-agenda	15 August 2016
CMPA Joint Committee Date to approve the accounts	2 September 2016
Independent auditor's report signed and issue of final annual report on the audit	2 September 2016

23. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to all relevant officers to confirm factual accuracy. A copy of all final agreed reports will be sent to the Treasurer, Internal Audit and Audit Scotland's Performance Audit and Best Value Group.

24. We will provide an independent auditor's report to CMPA and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory requirements. The combined ISA 260 and Annual Audit Report will be issued by 30 September.

25. All annual audit reports produced are published on Audit Scotland's website: www.audit-scotland.gov.uk.

26. Planned outputs for 2015/16 are summarised at Appendix 1.

Quality control

27. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established as part of financial audit procedures. This is to provide reasonable assurance that those professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Accounts Commission. To ensure that we achieve the required quality standards, Audit

Scotland conducts peer reviews and internal quality reviews and has been subject to a programme of external reviews by the Institute of Chartered Accountants of Scotland (ICAS).

28. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We do, however, welcome feedback at any time and this may be directed to the engagement lead, Anne McGregor.

Independence and objectivity

29. Auditors appointed by the Accounts Commission must comply with the Code of Audit Practice. When auditing the financial statements, auditors must also comply with professional standards issued by the Auditing Practices Board (APB) and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.

30. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of CMPA.

Audit issues and risks

Audit issues and risks

31. Based on our discussions with staff, attendance at committee meetings and a review of supporting information we have identified the following main risk areas for CMPA. We have categorised these risks into financial risks and wider dimension risks. The financial statements issues and risks, which require specific audit testing, are summarised below and detail contained in Appendix 2.

Financial statement issues and risks

32. **Management override of controls:** Internal Standards on Auditing 240, *The Auditor's responsibilities relating to fraud in an audit of financial statements* states that audit procedures should be responsive to risks related to management override of controls. Due to the unpredictable way in which such override could occur, it is a risk of material misstatement due to fraud and thus an audit risk. We have not identified any audit issues on this in the past but each year have to address the risk.

33. **Income:** CMPA has a number of income streams (requisition from contributing councils, charges to users, grants, sales fees and charges and other miscellaneous income). The non-requisition income streams account for approximately a third of total income.

34. International auditing standards (ISA240) requires that auditors consider the presumption that there are risks of fraud in revenue recognition. There is a risk that income is not correctly recognised and accurately recorded.

Wider dimension issues and risks

35. **Park review:** Over the past few years we have monitored and reported on progress of reviews of the park and reported last year that a revised park strategy will be prepared for approval by the Joint Committee in early 2016. With the reviews taking place there has been no formal strategy in place since the 2011/12 version. In the meantime the park manager works to previously agreed priorities of education, leisure activity and environmental management.

36. A corporate plan has a key role in ensuring that all members and officers are focused on common strategic objectives. Without a plan, there is a risk there is no clear statement of priorities for services and improvement, nor clear information about how it will address significant issues in the context of other priorities and challenges.

37. Officers advise that the park strategy is currently being finalised with a view to it being sent to member authorities for review over the summer and being presented to the Joint Committee in September 2016.

38. **Financial Sustainability:** The 2015/16 budget included reduction of member requisitions of 5.8% (£50,000) from the previous year and there are further reductions of 14.3% (£115,000) planned for 2016/17. A surplus of £21,000 is projected for 2015/16 and a

balanced budget set for 2016/17 but there remains a risk over the financial sustainability of the park and the range of services provided, if projected non requisition income is not achieved. Due to the uncertainty over local authority settlements beyond 2016/17, budget plans for 2017/18 onwards have not been published.

Fees and resources

Audit fee

39. Over the past four years, Audit Scotland has reduced audit fees by 24% in real terms, exceeding our 20% target. Due to further refinement of our audit approach we have been able to maintain audit fees for 2015/16 at the same level as last year. This represents an additional real term fee reduction of 1.6%.

40. In determining the audit fee we have taken account of the risk exposure of CMPA, the planned management assurances in place, and the level of reliance we plan to take from the work of internal audit. We have assumed receipt of a complete set of unaudited financial statements and comprehensive working papers package by 27 June 2016.

41. The agreed audit fee for the 2015/16 audit of CMPA is £1, 600. Our fee covers:

- the costs of planning, delivering and reporting the annual audit including auditor's attendance at committees
- your organisations allocation of the cost of national performance studies and statutory reports by the Controller of Audit
- a contribution towards functions that support the local audit process (e.g. technical support and coordination of the National Fraud Initiative), support costs and auditors' travel and subsistence expenses.

42. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwit our planned audit activity.

Audit team

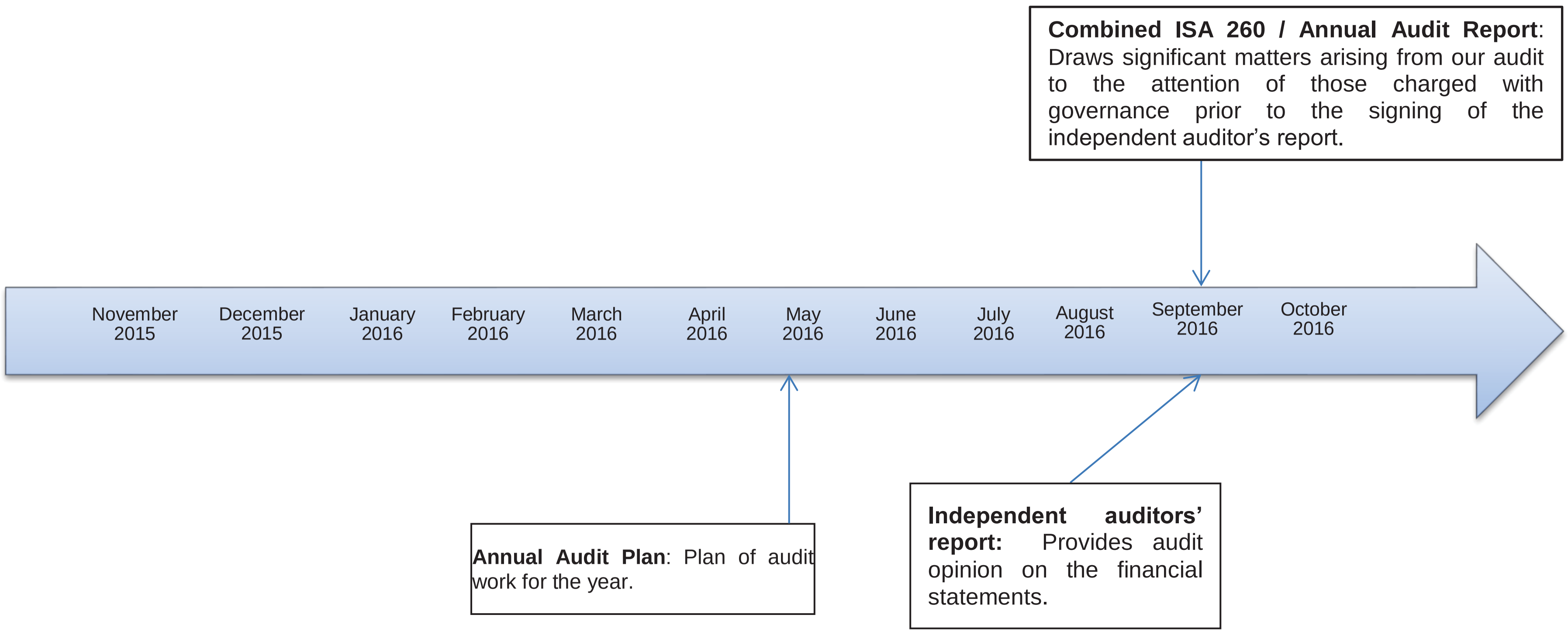
43. Anne McGregor, Senior Audit Manager, Audit Services is your appointed auditor. The local audit team will be led by Andrew Kerr who will be responsible for day to day management of the audit and who will be your primary contact. Details of the experience and skills of our team are provided in Exhibit 2. The core team will call on other specialist and support staff as necessary.

Exhibit 2: Audit team

Name	Experience
Anne McGregor, CA Senor Audit Manager (and certifying auditor)	Anne has over 16 years experience of public sector audit after working in the private sector for 8 years. Her public sector audit experience includes central and local government and she has been involved in a number of business improvement projects within Audit Scotland.
Kenny McFall, CPFA Senior Auditor	Kenny has 14 years experience of public sector audit with Audit Scotland, covering local government, central government and health sectors. Kenny leads on the audit of Renfrewshire Council and has overview role for audits of audited bodies that use council systems.
Andrew Kerr Professional Trainee	Andrew joined Audit Scotland in October 2013 and has been involved in local government and central government audits. He is currently studying towards his ICAS qualification.

Appendix 1: Planned audit outputs

The diagram below shows the key outputs planned for CMPA in 2015/16.



Appendix 2: Significant audit risks

The table below sets out the key audit risks, the related sources of assurance received and the audit work we propose to undertake to address the risks during our audit work.

#	Audit Risk	Source of assurance	Audit assurance procedure
Financial statement issues and risks			
1	**Management Override of Controls** As stated in ISA 240, management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	• N/A	• Detailed testing of journal entries • Review of accounting estimates for bias • Evaluating significant transactions that are outside the normal course of business.
2	**Income** CMPA has a number of income streams (requisition from contributing councils, charges to users, grants, sales fees and charges and other miscellaneous income).The non-requisition income streams account for approximately a third of total income. International auditing standards (ISA240) requires that auditors consider the	• Closedown procedures clearly explain work to be done on identifying all transactions for relevant accounting period. • Income and expenditure for each project is separately recorded to ensure that income is correctly released to match expenditure incurred.	• We will substantively test revenue streams to ensure that income has been completely and accurately recorded.

#	Audit Risk	Source of assurance	Audit assurance procedure
	presumption that there are risks of fraud in revenue recognition. There is a risk that income is not correctly recognised and accurately recorded.		
Wider dimension issues and risks			
3	**Park strategy** The formal strategy document has not yet been published. There is a risk there is no clear direction for the park or shared understanding of priorities, which may lead to ineffective decision making in the short term.	• Strategy being prepared under previously agreed priorities of education, leisure activity and environmental management. • An interim park manager remains in post and working to above priorities in addition to generating additional income. • Officers advise that the park strategy is currently being finalised with a view to it being sent to member authorities for review over the summer and being presented to the Joint Committee in September 2016.	• Review disclosures in management commentary and annual governance statement in 2015/16 financial statements and consider completeness of disclosures in light of development stage of strategy. • Review draft strategy issued to member authorities. • Provide update in annual report on the audit
4	**Financial Sustainability** The 2015/16 budget noted that member requisitions reduced by 5.8% (£50k) from the previous year and there is further	• As at 8 January a net underspend of £21,000 was projected • Balanced budget agreed for 2016/17	• Review the 2015/16 outturn and provide an update in our annual report on the audit.

#	Audit Risk	Source of assurance	Audit assurance procedure
	reductions of 14.3% (£115k) planned for 2016/17. There is a risk over the financial sustainability of the park and the range of services provided, if projected non requisition income is not achieved over the next 2 years.	• Ongoing revenue monitoring against budget will identify income patterns during the year and updates provided to each CMPA joint committee meeting. • CMPA developing new funding streams and investing in pontoons to increase visitor numbers.	• Monitor outturn in revenue budget monitoring report for 2016/17 and in in particular projected non requisition income streams

Appendix 3: Progress on annual audit report actions

The table below sets out the key audit risks, the related sources of assurance received and the audit work we propose to undertake to address the risks during our audit work.

#	Audit Risk	Management action/ target date	Progress
Financial statement issues and risks			
1	**Financial sustainability** Requisition levels from partner local authorities continue to decrease, reserves are very small compared to annual expenditure and officers project a funding gap for 2016/17. **Risk:** There is a risk over the financial sustainability of the park if funding gap is not addressed. ***Recommendation*** Medium term financial plan with scenario planning to be prepared.	• Ongoing revenue monitoring against budget will identify income patterns during the year and updates provided to each CMPA Joint Committee meeting. • CMPA continues to look for other funding sources • Staffing review underway • The projected funding gap to be reviewed as part of 2016/17 budget planning Target date: February 2016	• As at 8 January a net underspend of £21,000 was projected for 2015/16 • Four staff left under voluntary early retirement/voluntary redundancy scheme in 2015/16. • Members approved a balanced budget for 2016/17 budget in February 2016, with a reduction in staff costs being the most significant movement to achieve a balanced budget. • CMPA will return to more defined medium-term financial strategy once there is more clarity on finance settlements for councils.
2	**Strategy and performance management** There has been no formal strategy in place since 2011-12 and there was no 2013/14	• The annual report 2014/15 shows that visitor numbers increased and the Commonwealth Games was a key initiative and increased activity and	• CMPA Consultative Forum met in December 2015 to discuss park review and future of the park. Members noted the review had not been as far reaching

#	Audit Risk	Management action/ target date	Progress
	annual report. **Risk** There is a risk there is a lack of direction and priorities for staff to focus on. **Recommendation** An updated strategy should be prepared which includes information on milestones, or measurements, resources to be applied, along with agreed performance management arrangements	access to funding. • Members were updated in September 2015 that a revised park strategy will be prepared for approval by the Joint Committee in early 2016. Target date: March 2016	as imagined but that the park was heading in the right direction. • Members continue to be provided with updates on developments and new funding streams. • Formal strategy preparation on-going
3	**Audit Scotland National Reports** There is no formal process in place to review Audit Scotland national reports pertinent to CMPA. **Risk** There is a risk that CMPA miss out on lessons learned from other audits across local government. **Recommendation** Audit Scotland reports are reviewed by officers and summary information or lessons learned disseminated to members.	• Interim park manager will liaise with Renfrew Council officers as to the best way to carry this forward in a proportionate way Target date: 30 November 2015.	• Officers are reviewing how the council process for reviewing Audit Scotland national reports can be extended to the park and will discuss approach with auditor and agree process for September meeting.