

GLASGOW AND THE CLYDE VALLEY STRATEGIC DEVELOPMENT PLANNING AUTHORITY JOINT COMMITTEE

To: Joint Committee

On: 13 June 2016

Report by: The Treasurer

Heading: Annual Audit Plan 2015-16

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 the Glasgow and the Clyde Valley Strategic Development Planning Authority. Audit Scotland have confirmed that they have not found any issues on this in previous years.

2 Recommendations

- 2.1 The Joint Committee is asked to note the Annual Audit Plan 2015-16 by Audit Scotland.
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Glasgow and the Clyde Valley Strategic Development Planning Authority (Clydeplan)

Annual Audit Plan 2015/16

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

June 2015



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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 Glasgow and the Clyde Valley Strategic Development Planning Authority for the period 2011/12 to 2015/16.

This report has been prepared for the use of Glasgow and the Clyde Valley Strategic Development Planning Authority and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the authority.

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Summary

Introduction

1. Our audit is focused on the identification and assessment of the risks of material misstatement in Glasgow and the Clyde Valley Strategic Development Planning Authority's (Clydeplan) financial statements.
2. This report summarises the key challenges and risks facing Clydeplan and sets out the audit work that we propose to undertake in 2015/16. Our plan reflects:
 - the risks and priorities facing Clydeplan
 - 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.

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 Clydeplan 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 Clydeplan's governance arrangements and financial position
- prepare an annual report on the audit addressed to Clydeplan and the Controller of Audit.

Responsibilities

4. The audit of the financial statements does not relieve management or the Joint Committee, 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 Clydeplan 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 Clydeplan. We also consider the key audit risks and challenges in the local government sector generally.

This approach includes:

- understanding the business of Clydeplan and the risk exposure which could impact on the financial statements
- assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how Clydeplan 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 the 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 the council. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carried 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. Overall we concluded that the Council's internal audit service operates in accordance with PSIAS and has sound documentation standards and reporting procedures in place. In respect of our wider

governance and performance audit work we plan to review the findings of internal audit work on business continuity arrangements.

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 Clydeplan we have set our planning materiality at £7,300 (1% of prior year 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 £5,500. 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. Clydeplan must publish the unaudited accounts on their websites and give public notice of the inspection period.

20. The 2014 regulation require the 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.** Clydeplan is required to publish on its website its signed audited annual accounts, and the audit certificate, by 30 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	13 June 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 the audit process
Latest date for final clearance meeting with Treasurer	19 August 2016

Key stage	Date
Agreement of audited unsigned financial statements, and issue of proposed Annual Audit Report which includes the ISA 260 report to those charged with governance	29 August 2016
Joint Committee Date	12 September 2016
Independent Auditor's Report signed and issue final annual report on the audit.	13 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 the responsible head of service and relevant officers to confirm factual accuracy. A copy of all final agreed reports will be sent to the Strategic Development Plan Manager, Treasurer, Internal Audit and Audit Scotland's Performance Audit and Best Value Group.
- 24.** We will provide an independent auditor's report to Clydeplan 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 Clydeplan.

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 Clydeplan. 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. We will design and perform audit procedures to address these risks at Clydeplan.

Wider dimension issues and risks

1. **Financial sustainability:** In previous years we reported that we considered the level of contingency funds/ reserves for Clydeplan to be too high compared to annual expenditure and in 2015/16

£120,000 contingency funds were released back to member authorities.

2. The 2016/17 budget was approved by Clydeplan at the budget meeting on 14 December 2015, with no change in requisition income which remains at £579,500.
3. The budget included only details for 2016/17 due to local government settlement information only being available for one year. Therefore the longer-term financial plans still need to be developed as the tight financial climate continues and in light of the Scottish Government review of the planning system. In the mean time, Clydeplan continues to look to ways of making savings e.g. through moving office accommodation when the lease expires for the current site in October 2016.

National performance audit studies

4. Audit Scotland's Performance Audit and Best Value Group undertake a programme of studies on behalf of the Auditor General and Accounts Commission. In line with Audit Scotland's strategy to support improvement through the audit process, we will carry out work to collect relevant financial and performance information to inform Audit Scotland's national reports.

Fees and resources

Audit fee

5. 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%.
6. In determining the audit fee we have taken account of the risk exposure of Clydeplan, 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 20 June 2016.
7. The proposed audit fee for the 2015/16 audit of Clydeplan is £2,820.

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 Auditor General for Scotland
- 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.

8. 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 outwith our planned audit activity.

Audit team

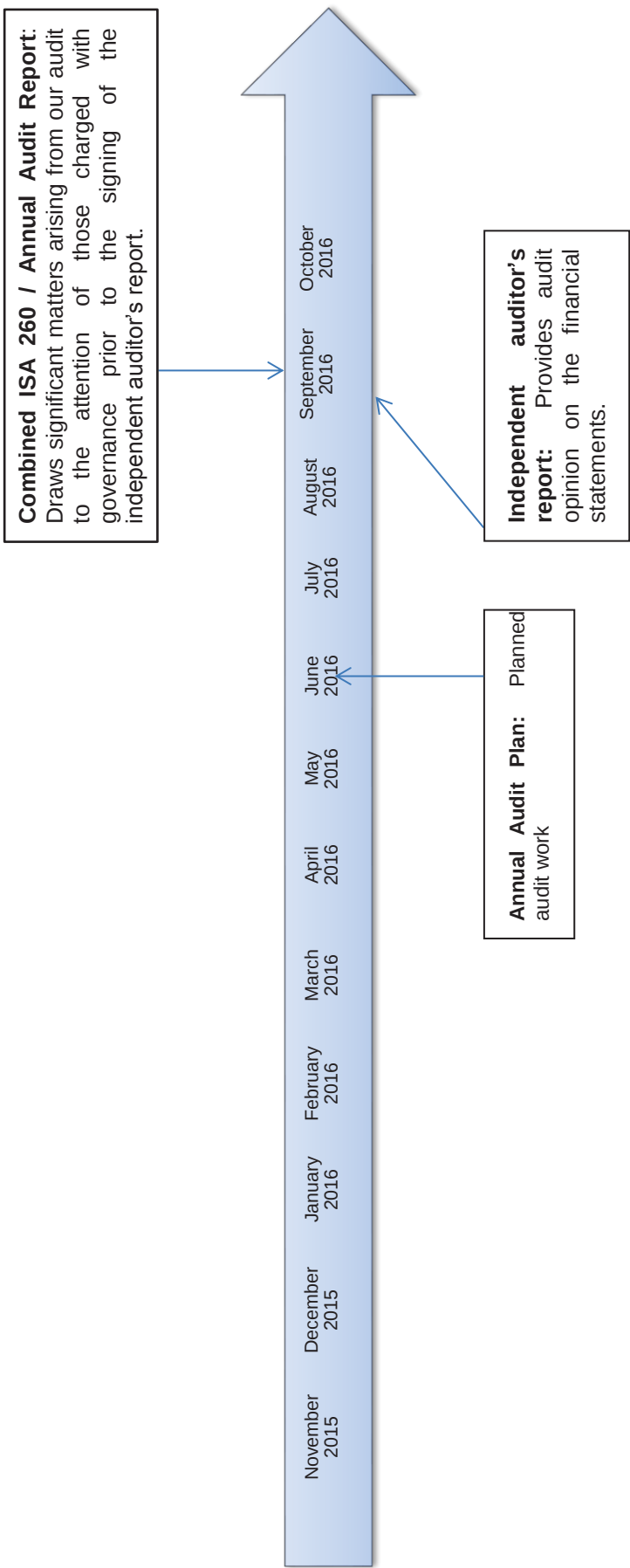
9. Anne McGregor, Senior Audit Manager, is your appointed auditor. The local audit team will be led by David Docherty who will be responsible for day to day management of the audit and who will be your primary contact. Details of the experience and skills of our team are provided in Exhibit 2. The core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

Exhibit 2: Audit team

Name	Experience
Anne McGregor Senior Audit Manager	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
Kenneth McFall Senior Auditor	Kenny has 14 years experience of public sector audit with Audit Scotland, covering local government, central government and health sectors.
David Docherty Auditor	David joined Audit Scotland as a professional trainee in 2012 and now an auditor with experience across local and central government.

Appendix 1: Planned audit outputs

The diagram below shows the key outputs planned for Clydeplan 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.

Appendix 3 – Progress on Annual Audit Report Actions

Action plan

No.	Issue/risk/Recommendation	Management action/response	Current position
1 9/26	Financial Regulations The financial regulations were last updated in June 2013 but there have been changes to the process of approving the accounts, as introduced by The Local Authority Accounts (Scotland) Regulations 2014. Risk There is a risk it is not clear who is responsible for meetings the new arrangements Recommendation Financial regulations are updated to reflect new statutory requirements.	The new timescales and processes were met for the audit of the 2014/15 accounts. The regulations will be updated for changes from the statutory instruments in time for planning the audit of 2015/16 financial statements. Treasurer 31 December 2015	The regulations on the website still include the 2013 version. This is being progressed and will be finalised and in place by the September meeting.

No. Page/para	Issue/risk/Recommendation	Management action/response	Current position
2 13/53	Business continuity plans There are no formal business continuity plans. Risk Should there be sudden or significant changes there could be delays in getting Clydeplan systems and processes running efficiently again, allowing staff to return to work. Recommendation Business continuity plans are prepared appropriate to the size and circumstances of Clydeplan.	Internal audit are undertaking a review of business continuity arrangements as part of the audit work for 2015/16. We will work with them as part of the review and implement any recommendations arising from the review. Manager 31 March 2016	Internal audit annual report on the audit will be presented to members at June 2016 meeting.
3 14/56	Registers of interest There is no register of interest for staff. Risk Clydeplan may not be able to identify and then minimise potential significant conflicts of interest. Recommendation Clydeplan implement a register of interests for staff that is updated annually. The register, or details of access to it, should be made available on the website.	Clydeplan currently has no policies on declaring gifts and hospitality and members should declare any interests at meetings. We will implement a register of staff. Manager and Treasurer 31 December 2015	This is being progressed and will be finalised and in place by the September meeting.

No. Page/para	Issue/risk/Recommendation	Management action/response	Current position
4 15/65	Audit Scotland National Reports There is no formal process in place to review Audit Scotland's national reports pertinent to Clydeplan. Risk There is a risk that Clydeplan miss out on lessons learned from other government audits. Recommendation Audit Scotland reports are reviewed by officers and summary information or lessons learned disseminated to members.	Manager will liaise with Renfrewshire Council officers to assess best way for proportionate arrangements to review reports and decide which should be summarised for members. Manager and Treasurer 30 November 2015	Officers are reviewing how the council process for reviewing Audit Scotland national reports can be extended to Clydeplan and will discuss approach with auditor and agree process for September meeting.