

West of Scotland Archaeology Service

Annual report on the 2011/12 audit



Prepared for Members of West of Scotland Archaeology Service and the Controller of Audit
31 October 2012

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Key messages

2011/12

In 2011/12 we audited the financial statements and looked at aspects of governance within West of Scotland Archaeology Service (WOSAS). This report sets out our main findings.

Overall, we found the financial stewardship of WOSAS during the year to be satisfactory. The main conclusions and outcomes from the audit are highlighted below:

- An unqualified opinion had been issued on the financial statements for 2011/12
- WOSAS has a sound corporate governance framework.

Outlook

Budgeted figures predict a deficit on the provision of services in both 2012/13 and 2013/14. With the increased funding pressures and potential withdrawal of Inverclyde Council from participation in the Service from 1st April 2013, there is a risk that recurring annual deficits will impact on the available reserve balance in future years.

Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of WOSAS. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements) and conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
2. A number of reports have been issued in the course of the year (Appendix A). We do not repeat all of the findings in this report, but instead we focus on the financial statements and any significant findings from our wider review of WOSAS.
3. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that WOSAS understands its risks and has arrangements in place to manage these risks. The Accountable Officer and members of the committee should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
4. This report is addressed to WOSAS and the Controller of Audit and should form a key part of discussions with the committee, as soon as possible after the formal completion of the audit of the financial statements. Reports should be made available to stakeholders and the public, where appropriate. Audit is an essential element of accountability and the process of public reporting.
5. This report will be published on our website (<http://www.audit-scotland.gov.uk>) after consideration by the committee.
6. The management of the audited body is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during our normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

7. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
8. We are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements
9. We review and report on, as appropriate, other information published with the financial statements, including the explanatory foreword and the statement on the system of internal financial control. This section summarises the results of our audit of the financial statements.

Audit opinion

10. We have given an unqualified opinion that the financial statements of WOSAS for 2011/12 give a true and fair view of the state of the body's affairs and its net deficit on the provision of services for the year
11. We also confirmed that information given in the foreword was consistent with the financial statements.

Legality

12. Through our planned audit work we consider the legality of WOSAS's financial transactions. In addition, as the lead authority, Glasgow City Council's Executive Director of Financial Services has confirmed that, to the best of her knowledge and belief, and having made appropriate enquiries of WOSAS's management team, the financial transactions of WOSAS were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

Going concern

13. Auditing standards require auditors to consider an organisation's ability to continue as a going concern when forming an opinion on the financial statements. WOSAS has considered it appropriate to adopt a going concern basis for the preparation of the financial statements.

Statement on the System of Internal Financial Control

14. WOSAS's financial transactions are processed through Glasgow City Council's financial systems. Our review of these systems was conducted as part of the council's audit, supplemented by specific audit work on WOSAS's financial statements.

15. We are satisfied with the disclosures made in the Statement on the System of Internal Financial Control and the adequacy of the process put in place by WOSAS to obtain the necessary assurances.

Remuneration report

16. As the senior management of WOSAS are all Glasgow City Council employees and their remuneration is disclosed in the council's report we are satisfied there is no requirement to include a remuneration report in the financial statements, as set out in the Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011. However, a disclosure note has been inserted to explain the omission of such a report.

Accounting issues

17. Local authorities and joint committees in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code). We are satisfied that WOSAS prepared the 2011/12 financial statements in accordance with the Code and in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Accounts submission

18. WOSAS's financial statements were submitted to the Controller of Audit by the deadline of 30 June. Final accounts preparation procedures and working papers were of a good standard and this enabled the audit to progress smoothly.

Presentational issues

19. The Code requires bodies to provide for liabilities arising from employee benefits payable at the balance sheet date. This includes items such as untaken annual leave and flexitime. However, service staff are employed by Glasgow City council rather than the body itself, and their costs recharged. Any associated employee benefit liability is reflected in Glasgow City council's financial statements as part of their assessment of liabilities. The narrative notes to the financial statements reflect this arrangement. We are satisfied that the approach adopted complies with the requirements of the Code.

Financial position

20. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
21. We consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
22. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results and financial position

23. In 2011/12 WOSAS incurred a deficit on the provision of services of £37,404 compared to £3,446 in 2010/11. Expenditure remained broadly in line with the previous year, but contributions and fees were lower by approximately £40,000.
24. WOSAS's balance sheet as at 31 March 2012 reflected net assets of £112,484, a reduction of £37,404 due to the deficit on the provision of services for the year.

Outlook - financial planning

25. A revised financial programme was submitted to the WOSAS Joint Committee meeting on 17 May 2011 which noted the voluntary early retiral of the service manager on 30 June 2011. The replacement was by appointment from within the Service's staff with the resultant vacancy not being filled in order to save money on staff costs.
26. Budgetary projections for 2012/13 estimate an approximate breakeven position; and for 2013/14 an excess of expenditure over income of £12,000, which will be met from reserves.
27. There is a risk that funding levels for the Service will come under increasing pressure and a business plan is being prepared to consider and address this issue. We will monitor these developments as part of future audits.

Refer Action Plan no. 1

Governance and accountability

28. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
29. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance in monitoring these arrangements.
30. Consistent with the wider scope of public audit, we have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption
31. In this part of the report we comment on key areas of governance.

Corporate governance

Overall effectiveness

32. We found that, overall, corporate governance arrangements operated effectively during 2011/12.

Relationship with host authorities

33. WOSAS has a responsibility to put in place arrangements for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice. As auditor we have responsibility to report on WOSAS's corporate governance arrangements and review the statement on the system of internal financial control.
34. In accordance with WOSAS's minute of agreement, financial transactions are processed through Glasgow City Council's financial systems. It is the responsibility of the council's management to maintain adequate financial systems and associated internal controls, both for the purpose of giving an opinion on the statements of accounts, and in order to report on the adequacy of such systems and controls.
35. Our review of these systems was conducted as part of the audit of Glasgow City Council and supplemented by specific audit work on WOSAS's financial statements. Our conclusions are

that Glasgow City Council's financial systems are adequate for the purpose of producing the Service's financial statements. No areas of significant concern were identified relating to the transactions.

36. The statement on the system of internal financial control states that reasonable assurance can be placed upon the adequacy and effectiveness of WOSAS's internal financial control system. The statement complies with accounting requirements and is consistent with the findings of our audit.

Prevention and detection of fraud and irregularities

37. The arrangements established for the prevention of fraud and irregularities have been considered by the audit of the Glasgow City Council as the host authority (e.g. Fraud policy, Whistleblowing policy, etc.) There are no matters that we wish to bring to the attention of the Joint Committee.

NFI in Scotland

38. Glasgow City Council participates in the National Fraud Initiative (NFI). This is a counter-fraud exercise that uses computerised techniques to compare information about individuals held by different public bodies to identify circumstances that might suggest the existence of fraud or error (matches). Where matches are identified public bodies are expected to investigate these and if fraud and error has taken place, to stop payments and attempt to recover the amounts involved. The exercise also provides assurance on the effectiveness of arrangements and helps deter fraud.
39. Results were published by Audit Scotland in May 2012 in a report on the NFI. This highlighted that fraud, overpayments and recoveries totalling £19.8 million had been identified across Scotland in the most recent exercise and outcomes of £78 million had been achieved since NFI was first introduced. The report also contained a self-appraisal checklist that all participants are recommended to use prior to the start of the next exercise in October 2012.
40. The outcomes for the recent exercise will be reported through the audit of Glasgow City Council, but there are no matters that we wish to bring to the attention of the Committee.

Standards of conduct and arrangements for the prevention/ detection of bribery and corruption

41. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. We consider whether bodies have adequate arrangements in place.
42. For the purpose of the appointment to audit the financial statements of WOSAS, such arrangements have been considered in the audit of Glasgow City Council.

Appendix A: audit reports

External audit reports and audit opinions issued for 2011/12

Title of report or opinion	Date of issue
Annual Audit Plan	29 February 2012
Report on financial statements to those charged with governance	17 September 2012
Audit opinion on the 2011/12 financial statements	19 September 2012
Members Report	31 October 2012

Appendix B: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	27	There is a risk that funding levels for the Service will come under increasing pressure and that the Service will continue to return deficits, which will be met from the usable reserve balance.	A Business Plan will be implemented for WOSAS for the next financial year.	I Fyson	March 2013