

West of Scotland Archaeology Service

2015/16 Annual audit
report to Members and
the Controller of Audit

Key contacts

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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/).

Elaine Barrowman, Senior Audit Manager, Audit Scotland, is the engagement lead for the West of Scotland Archaeology Society for the period 2011/12 to 2015/16.

This report has been prepared for the use West of Scotland Archaeology Service Joint Committee and no responsibility to any member or officer in their individual capacity or any third party is accepted.

The information in this report may be used for the Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

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Key messages

Audit of financial statements

- Unqualified independent auditor's report on the 2015/16 financial statements.
- Working papers were of a good standard and officers provided good support which enabled the audit team to complete the audit by the planned target date.
- All presentation and disclosure issues identified in the unaudited accounts were corrected by management in the audited financial statements.

Financial management and sustainability

- The West of Scotland Archaeology Service has incurred a deficit of £3,549 in 2015/16. The shortfall was met from reserves as planned. The reserves balance at 31.3.16 was £100,013.

Governance and transparency

- The West of Scotland Archaeology Service had sound governance arrangements in place during 2015/16.

Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of the West of Scotland Archaeology Service (WOSAS). The report is divided into sections which reflect our public sector audit model.
2. The management of WOSAS is responsible for:
 - preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of WOSAS, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. A number of local audit reports, have been issued by Audit Scotland during the course of the year. These reports are summarised at [appendix II](#).
6. [Appendix III](#) is an action plan setting out our recommendations to address the risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that WOSAS understands its risks and has arrangements in place to manage these risks. Officers should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.
9. 2015/16 is the final year of the current five year audit appointment. From 2016/17 the auditor of WOSAS will continue to be Audit Scotland. In accordance with agreed protocols and International Standards on Auditing we will be liaising with the incoming audit team as part of this transition.

Audit of the 2015/16 financial statements

<p>Audit opinion</p>	<ul style="list-style-type: none"> • We have issued an unqualified independent auditor’s report.
<p>Going concern</p>	<ul style="list-style-type: none"> • The financial statements of WOSAS have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the ability of WOSAS to continue as a going concern.
<p>Other information</p>	<ul style="list-style-type: none"> • We review and report on other information published with the financial statements, including the management commentary and annual governance statement. We have nothing to report in respect of these statements.

Submission of financial statements for audit

10. We received the unaudited financial statements on 20 June 2016, in accordance with the agreed timetable. The working papers were of a good standard and staff provided good support to the audit team which assisted the delivery of the audit to deadline.

Overview of the scope of the audit of the financial statements

11. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan issued in February 2016.
12. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2015/16 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
13. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. [Appendix I](#) sets out the significant audit risks identified during the course of the

audit and how we addressed each risk in arriving at our opinion on the financial statements.

14. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

15. 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, an item contrary to law.
16. 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.
17. We summarised our approach to materiality in our Annual Audit Plan and updated our materiality calculations based on the unaudited financial statements. Based on our knowledge and understanding of WOSAS we set materiality for 2015/16 at £1,600 (1% of gross expenditure). We report all misstatements greater than £100 Performance materiality was calculated at £1,450, to reduce to an acceptable level the probability of uncorrected and

undetected audit differences exceeding our planning materiality level.

Evaluation of misstatements

18. All misstatements identified during the audit, which exceeded our misstatement threshold, have been amended in the financial statements.
19. A number of presentational and one monetary adjustment were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. The monetary adjustment related to our audit fee which was incorrect in the unaudited accounts. The effect of the adjustment is to reduce the deficit for the year by £256 and increase net assets by the same amount.

Significant findings from the audit

20. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
 - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
 - Significant difficulties encountered during the audit.
 - Significant matters arising from the audit that were discussed, or subject to correspondence with management.

- Written representations requested by the auditor.
- Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

21. In our view there are no significant findings to be communicated to you in accordance with ISA 260.

Future accounting and auditing developments

Code of Audit Practice

22. A new Code of Audit Practice will apply to all audits from financial year 2016/17. There will be a greater focus on four areas:
 - Financial sustainability
 - Financial management
 - Governance and transparency; and
 - Value for money
23. In addition, as well as the annual audit report, other significant outputs such as the annual audit plan will be published on Audit Scotland's website.

Financial management and sustainability

Financial management

24. In this section we comment on WOSAS' financial outcomes and assess WOSAS' financial management arrangements.
25. WOSAS sets an annual budget for the service. The budget is mainly funded by subscriptions from participating local authorities.

Financial outcomes

26. In 2015/16 WOSAS reported a deficit of £3549. The deficit was met out of reserves. The 2015-18 Service Financial Plan presented to the committee in March 2015 projected a deficit of £12,852, therefore the actual outturn was a lower deficit than expected. This is mainly due to reduced property and systems support costs.
27. The Service Financial Plan for 2016-2019 shows the continued use of reserves at approximately £12,500 per annum. We have previously reported the need for a formal reserves policy to be introduced. A reserves policy has been prepared and was approved by the committee in March 2016. However, the reserves policy does not include an approved minimum target level of uncommitted reserves. Having such a target enables the levels of reserves to be effectively managed. WOSAS should revise its reserves policy to include an approved minimum target level of uncommitted reserves.

Appendix III Action 1

Financial management arrangements

28. As auditors, we need to consider whether local government bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
 - the proper officer has sufficient status within the organisation to be able to deliver good financial management
 - financial regulations are comprehensive, current and promoted within the organisation
 - reports monitoring performance against budgets are accurate
 - monitoring reports do not just contain financial data but are linked to information about performance
 - members provide a good level of challenge and question significant budget variances.
29. Based on our accumulated knowledge and our review of relevant papers we can conclude that WOSAS has made appropriate financial management arrangements. However, revisions to the reserves policy to include a minimum target of uncommitted reserves should be considered given WOSAS' future plans to place greater reliance on reserves.

Financial sustainability

30. In assessing financial sustainability we are concerned with whether:

- there is an adequate level of reserves
 - spending is being balanced with income in the short term
 - long term financial pressures are understood and planned for
31. The level of usable reserves held by WOSAS decreased in 2015/16 by £3549 compared to 2014/15 and totalled £100,013.
32. WOSAS agreed its 2016/17 budget in March 2016. The 2016/17 budget projects a deficit of £14,595, to be met from retained financial reserves.
33. In the longer term, WOSAS is projecting a deficit to be met from reserves for each of the financial years up to 2018/19. Overall, we concluded that WOSAS has adequate levels of reserves but these should be managed carefully in future years to ensure adequate reserves are maintained at all times.

Governance and transparency

Corporate governance

34. Members and management of the service are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements.
35. The WOSAS comprises of members from each of the ten member authorities and is responsible for overseeing the work of the body and managing performance and achievement of the Business Plan. Their work also encompasses monitoring and approving the systems of governance.
36. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' governance arrangements and overall we found WOSAS has sound governance arrangements in place.
37. In line with the Local Authority Accounts (Scotland) Regulations 2014, WOSAS should conduct a review at least once in each financial year of the effectiveness of its system of internal control and the findings of the review should be considered at a meeting of the committee .

38. For WOSAS this requirement would be met by the Annual Internal Audit Report prepared for Glasgow City Council which also covers WOSAS. However, the report has not yet been considered by the committee. We have been advised it will be considered at the September 2016 meeting but it would be better practice to consider the internal audit report at the meeting to note the unaudited accounts.

Appendix III action point 2

Local code of corporate governance

39. Glasgow City Council, as lead authority for WOSAS, is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. The council has developed and adopted a local code of corporate governance which reflects the key components as set out in the CIPFA/SOLACE Framework: Delivering Good Governance in Local Government.

Internal control

40. In accordance with the minute of agreement WOSAS' financial transactions are processed through Glasgow City Council's financial systems to prepare its annual accounts. As part of our audit of Glasgow City Council we reviewed the high level controls in a number of systems fundamental to the preparation of the financial

statements. Our objective was to obtain evidence to support our opinion on WOSAS' financial statements.

41. No material weaknesses in the accounting and internal control systems were identified which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

Arrangements for the prevention and detection of fraud

42. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
43. The arrangements established for the prevention of fraud and irregularities have been considered as part of the audit of Glasgow City Council as the lead authority. There are no matters that we wish to highlight, although it should be noted that no system can eliminate the risk of fraud entirely.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

44. Audited bodies are responsible for ensuring that they have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether these arrangements are

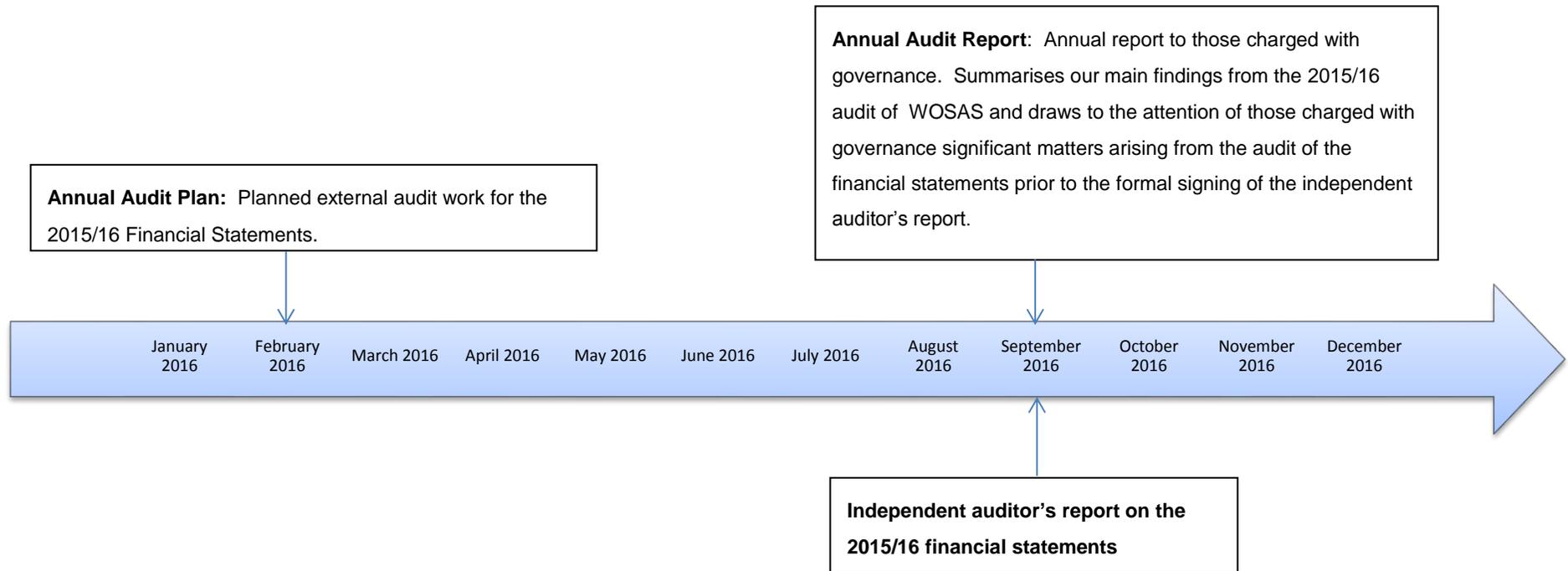
adequate. No issues have been identified by us for inclusion in this report.

Appendix I: Significant audit risks

The table below sets out the financial statement audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
<p>Management override of controls</p> <p>As is the case in all entities, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • We evaluated any significant transactions that were outside the normal course of business. • We tested journal entries and reviewed accounting estimates for bias. 	<ul style="list-style-type: none"> • We reviewed transactions throughout the year and did not identify any issues. • We reviewed journal entries and accounting estimates and did not identify any concerns
<p>Reserves policy</p> <p>WOSAS held £103,562 reserve balances at the end of March 2015. Going forward it is planned that reserves will be applied to finance projected deficits. The Service does not currently have an agreed policy for the future management of reserve balances.</p>	<ul style="list-style-type: none"> • We reviewed progress in introducing a reserves policy and the level of reserves held at the year end. 	<ul style="list-style-type: none"> • We have reviewed the reserves policy and have recommended it is revised to include a target for the minimum level of uncommitted reserves <p>See Appendix III Action 1</p>

Appendix II: Summary of West of Scotland Archaeology Service local audit reports 2015/16



Appendix III: Action plan

No.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1.	27	<p>Reserves Policy</p> <p>A reserves policy has been prepared and was approved by the committee in March 2016. However, the reserves policy does not include an approved minimum target level of uncommitted reserves. Having such a target enables the level of reserves to be effectively monitored and managed.</p> <p>Risk</p> <p>Reserves will continue to reduced to a level which is insufficient for the provision of future contingencies or unforeseen costs.</p> <p>Recommendation</p> <p>WOSAS should revise its reserves policy to include an approved minimum target level of uncommitted reserves.</p>	<p>Agreed</p> <p>A review by the WOSAS steering group on future service delivery is due to be completed in the 3rd quarter of 2016/17. Based on the steering group's recommendations for future service delivery the reserve policy will be updated and will include a minimum level of reserve as recommended by the Finance Officer (DRS).</p>	<p>Finance Officer (Development and Regeneration Services) January/February 2017</p>

No.	Paragraph ref.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
2.	38	<p>Consideration of Annual Internal Audit Report</p> <p>In line with the Local Authority Accounts (Scotland) Regulations 2014 WOSAS should conduct a review at least once in each financial year of the effectiveness of its system of internal control and that the findings of the review should be considered at a meeting of the committee . For WOSAS this requirement would be met by the internal audit report prepared for Glasgow City Council which also covers WOSAS. However, the report has not yet been considered by the committee. We have been advised it will be considered at the September 2016 meeting.</p> <p>Risk</p> <p>Members are unaware of the results of the review of the internal control system when they note the unaudited accounts.</p> <p>Recommendation</p> <p>It would be better practice to consider the internal audit report at the meeting to note the unaudited accounts.</p>	<p>Agreed</p> <p>Arrangements will be made to include the Annual Internal Audit Report along with the unaudited accounts for consideration by members</p>	<p>Finance Officer (Development and Regeneration Services)</p> <p>June 2017</p>

