



West of Scotland European Forum

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

September 2016

Key contacts

Elaine Barrowman, Senior Audit Manager
ebarrowman@audit-scotland.gov.uk

Audit Scotland

4th Floor, The Athenaeum Building

8 Nelson Mandela Place

Glasgow

G2 1 BT

Telephone: 0131 625 1500

Website: www.audit-scotland.gov.uk

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 European Forum Joint Committee for the period 2011/12 to 2015/16.

This report has been prepared for the use of West of Scotland European Forum 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.

Contents

Key messages	3
Introduction	4
Audit of the 2015/16 financial statements.....	5
Financial management and sustainability	8
Governance and transparency	10
Appendix I: Significant audit risk.....	12
Appendix II: Summary of West of Scotland European Forum local audit reports 2015/16.....	13
Appendix III: Action plan.....	14

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 European Forum has incurred a deficit of £6,956 in 2015/16. The shortfall was met from reserves as part of a plan to reduce reserves to approximately one year's running costs.

Governance and transparency

- The West of Scotland European Forum 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 European Forum (WOSEF). The report is divided into sections which reflect our public sector audit model.
2. The management of WOSEF 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 WOSEF, 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 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 recommendation to address the high level risk we have identified during the course of the audit. Officers have considered the issue 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 the Joint Committee understands its risks and has arrangements in place to manage these risks. Members 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 WOSEF will continue to be Audit Scotland. In accordance with agreed protocols and International Standards on Auditing we will be liaising with the incoming auditors as part of this transition.

Audit of the 2015/16 financial statements

<p>Audit opinion</p>	<ul style="list-style-type: none"> • We have completed our audit of WOSEF and issued an unqualified independent auditor’s report.
<p>Going concern</p>	<ul style="list-style-type: none"> • The financial statements of WOSEF have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on WOSEF’s ability 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 WOSEF we set materiality for 2015/16 at £500 (1% of gross expenditure). We report all misstatements greater than £100. Performance materiality was calculated at £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 small number of presentational adjustments 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.

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 focus on four areas:
 - Financial sustainability
 - Financial management
 - Governance and transparency
 - 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 WOSEF's financial outcomes and assess its financial management arrangements.
25. WOSEF sets an annual budget for the service. The budget is funded by contributions from the local authorities and other organisations who are members of the forum.

Financial outcomes

26. WOSEF reported a deficit of £6,956. The deficit was met out of reserves as part of a plan to reduce reserves. In 2014/15 local authority subscriptions were reduced by 50% to reduce the reserves balance, for 2015/16 the subscriptions were set at 85% of the 2012/13 level.
27. The 2015/16 budget presented to the committee in May 2015 projected a deficit of £14,000, therefore the actual outturn was a lower deficit than expected. This is mainly due to reduced travel and operational costs and that planned expenditure of £3,000 for special events was not required.

Financial management arrangements

28. As auditors, we need to consider whether authorities 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 WOSEF has made appropriate financial management arrangements

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 WOSEF decreased in 2015/16 by £6,956 compared to the previous year and totalled £58,090.
 32. WOSEF agreed its 2016/17 budget in February 2016. The 2016/17 budget projects a deficit of £12,000. This deficit will be met from reserves. Overall, we have concluded that WOSEF has adequate levels of reserves.

Governance and transparency

Corporate governance

33. Members and management of WOSEF 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.
34. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' governance arrangements and overall we found WOSEF to have sound governance arrangements in place. However there is one issue we would like to bring to your attention
35. In line with the Local Authority Accounts (Scotland) Regulations 2014 WOSEF 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.
36. For WOSEF this requirement would be met by the Annual Internal Audit Report prepared for Glasgow City Council which also covers WOSEF. 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 1.**

Local code of corporate governance

37. Glasgow City Council, as lead authority for WOSEF, 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

38. In accordance with the minute of agreement WOSEF's 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 WOSEF's financial statements.
39. 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

40. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
41. 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

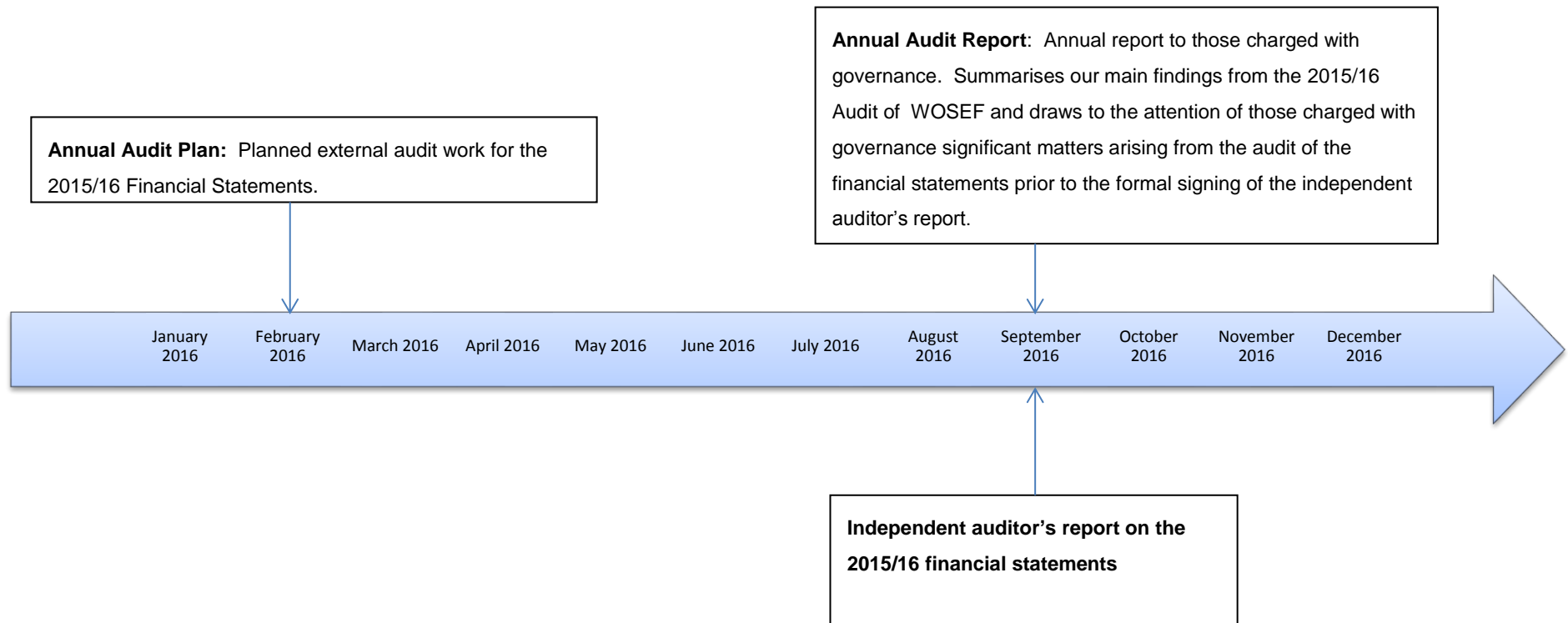
42. Audited bodies are responsible for ensuring that they have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether these arrangements are adequate. No issues have been identified by us for inclusion in this report.

Appendix I: Significant audit risk

The table below sets out the financial statement audit risk we identified during the course of the audit and how we addressed the 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 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 as part of transaction testing and identified that there were no significant accounting estimates.

Appendix II: Summary of West of Scotland European Forum local audit reports 2015/16



Appendix III: Action plan

No. AS ref.	Paragraph ref	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1	36	<p>Consideration of Annual Internal Audit Report</p> <p>In line with the Local Authority Accounts (Scotland) Regulations 2014 WOSEF 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 WOSEF this requirement would be met by the internal audit report prepared for Glasgow City Council which also covers WOSEF. 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>Recommendation</p> <p>It would be better practice to consider the internal audit report at the meeting to note the unaudited accounts.</p>	<p>The Annual Internal Audit Report will be considered by the committee at its next meeting on 19 September 2016.</p> <p>In future years the Annual Internal Audit Report will be considered at the meeting to note the unaudited accounts.</p>	<p>Account Manager Financial Services June 2017</p>