

# Clyde Muirshiel Park Authority

2019/20 Annual Audit Report



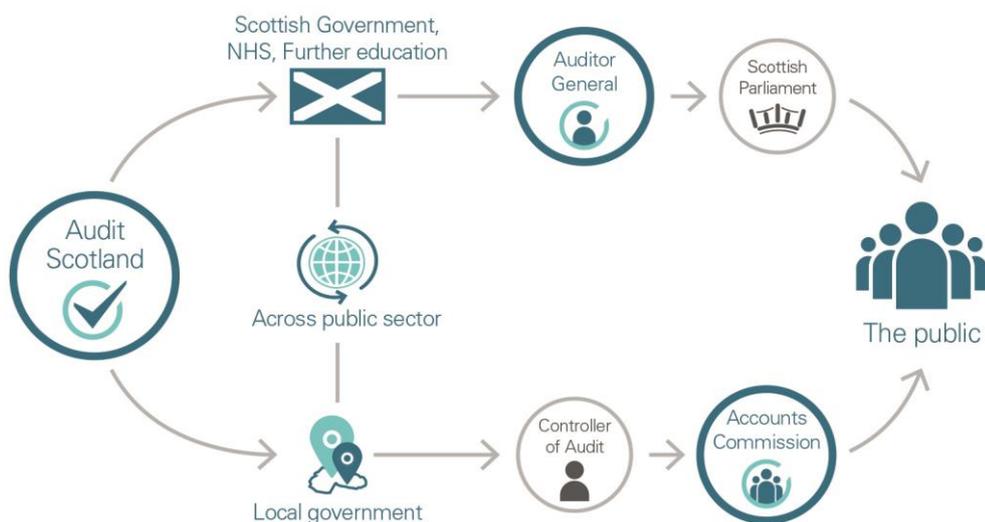
 AUDIT SCOTLAND

Prepared for Clyde Muirshiel Park Authority Joint Committee and the Controller of Audit  
September 2020

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- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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# Key messages

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## 2019/20 annual report and accounts

- 1** Clyde Muirshiel Park Authority's financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.
- 2** The Management Commentary, the Annual Governance Statement and the audited part of the Remuneration Report were all consistent with the financial statements and properly prepared in accordance with the applicable requirements.
- 3** Management recognised a provision of £11,078 for planned investment in CMPA's ICT infrastructure. However, we concluded this did not meet the requirements to be recognised as a provision. This was adjusted in the financial statements and resulted in a decrease of £11,078 in expenditure, with a corresponding increase in usable reserves.
- 4** The financial statements were adjusted to reflect an updated estimate of the impact of the McCloud / Sargeant legal judgements on the pension liability. This resulted in a decrease of £32,500 in expenditure, with a corresponding decrease in the pension liability and pension reserve.

## Financial sustainability

- 5** A surplus of £25,269 for the financial year 2019/20 was achieved, compared to a budgeted deficit of £20,000; which represents an underspend of £45,269.
- 6** The audited annual accounts for 2019/20 confirm a reserves balance of £123,000 as at 31 March 2020, of which £11,000 has been ringfenced for the delayed investment in the ICT infrastructure. It has been agreed that only 50% of the revenue reserve balance of £112,000 can be utilised to meet the potential projected deficit of £167,000 forecast for 2020/21. Any overspend above this value will require further approval or be managed through other arrangements.
- 7** We have previously made recommendations highlighting the need to review and update policies and procedures within the Governance Framework. With the changes to governance in 2020/21, this has been superseded. The Joint Committee and management should assure themselves that governance arrangements remain appropriate as future operations are progressed by the member authorities.

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# Introduction

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**1.** This report summarises the findings from our 2019/20 audit of Clyde Muirshiel Park Authority (CMPA).

**2.** The scope of our audit was set out in our [Annual Audit Plan](#) presented to the 14 February 2020 meeting of the Joint Committee. This report comprises the findings from:

- an audit of the CMPA annual report and accounts; and
- consideration of the financial sustainability and Annual Governance Statement.

**3.** Subsequent to the publication of the Annual Audit Plan, in common with all public bodies, CMPA had to respond to the COVID-19 pandemic. This impacted on the final month of the year and will continue to have a significant impact into the financial year 2020/21. Our planned audit work was adapted for new emerging risks that related to the audit of the financial statements.

## Adding value through the audit

**4.** We add value to CMPA through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations; and
- providing clear conclusions on financial sustainability and disclosures in the Annual Governance Statement.

**5.** In so doing, we aim to help CMPA promote improved standards of governance, better management and decision making and more effective use of resources.

## Responsibilities and reporting

**6.** CMPA has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. CMPA is also responsible for compliance with legislation putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

**7.** Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice \(2016\)](#) and supplementary guidance and International Standards on Auditing in the UK. Local government bodies have a responsibility to have arrangements in place to demonstrate Best Value in how they conduct their activities. Our audit work on CMPA's Best Value arrangements is focussed on the bodies use of resources to secure financial sustainability.

**8.** As public sector auditors we give independent opinions on the annual accounts. Additionally, we conclude on the appropriateness of disclosures in the Annual Governance Statement and the appropriateness and effectiveness of the

arrangements in place for securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice and supplementary guidance.

**9.** The Code of Audit Practice includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the Annual Governance Statement and the financial sustainability of the body and its services. As highlighted in our 2019/20 Annual Audit Plan, due to the volume and lack of complexity of the financial transactions, we applied the small body provisions of the Code to the 2019/20 audit.

**10.** This report raises matters from our audit. The weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

### **Auditor Independence**

**11.** We confirm that we comply with the Financial Reporting Council's Ethical Standard. We have not undertaken any non-audit related services during the year and therefore the 2019/20 audit fee of £1,837, as set out in our Annual Audit Plan, remains unchanged.

**12.** We are not aware of any relationships that could compromise our objectivity and independence.

**13.** This report is addressed to both the Joint Committee and the Controller of Audit and will be published on Audit Scotland's website [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk) in due course.

**14.** We would like to thank the management and staff who have been involved our work for their cooperation and assistance during the audit, particularly given the difficulties of auditing remotely during the COVID-19 pandemic.

# Part 1

## Audit of 2019/20 annual accounts



### Main judgements

**CMPA's financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework.**

**The Management Commentary, the Annual Governance Statement and the audited part of the Remuneration Report were all consistent with the financial statements and properly prepared in accordance with the applicable requirements.**

**Management recognised a provision of £11,078 for planned investment in CMPA's ICT infrastructure. However, we concluded this did not meet the requirements to be recognised as a provision. This was adjusted in the financial statement and resulted in a decrease of £11,078 in expenditure, with a corresponding increase in usable reserves.**

**The financial statements were adjusted to reflect an updated estimate of the impact of the McCloud / Sargeant legal judgements on the pension liability. This resulted in a decrease of £32,500 in expenditure, with a corresponding decrease in the pension liability and pension reserve.**

### Our audit opinions on the annual accounts are unmodified

**15.** The annual accounts are the principal means of accounting for the stewardship of the CMPA's resources and its performance in the use of those resources.

**16.** The annual accounts for the year ended 31 March 2020 were approved by the Joint Committee on 4 September 2020.

**17.** As reported in the independent auditor's report:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework;
- the Management Commentary, the Annual Governance Statement and the audited part of the Remuneration Report were all consistent with the financial statements and properly prepared in accordance with the applicable requirements; and
- we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

### The annual accounts were signed off in line with the agreed timetable

**18.** The unaudited annual accounts were received in line with our agreed audit timetable on 15 June 2020. There has been limited impact of COVID-19 on the

audit process. The physical limitations on access to records and systems did not impact on or delay the audit and CMPA staff were supported in homeworking during the period of the outbreak.

**19.** The unaudited annual accounts provided for audit were complete and of a good standard and finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

### Overall materiality is £12,000

**20.** The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

**21.** On receipt of the unaudited annual accounts, we reviewed our materiality calculations and concluded that no changes were required to our planned levels.

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## Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£12,000
Performance materiality	£9,000
Reporting threshold	£1,000

Source: Annual Audit Plan 2019/20

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### Appendix 1 identifies the main risks of material misstatement and our audit work to address these

**22.** [Appendix 1](#) provides our assessment of risks of material misstatement in the annual accounts. It also summarises the work we have done to gain assurance over the outcome of these risks.

### We have no significant findings to report on the accounts, except for those included at Exhibit 2

**23.** International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures. We have no significant findings to report around the qualitative aspects. The significant findings are summarised in [Exhibit 2](#).

## Exhibit 2

### Significant findings from the audit of the financial statements

Issue	Resolution
<p><b>1. Provisions</b></p> <p>Management recognised a provision of £11,078 in the financial statements for planned investment in ICT infrastructure to update equipment and systems. The planned investment was to occur in 2019/20. However, there were delays due to COVID-19 and this expenditure was not incurred in year. As a result, management recognised a provision in the financial statements to reflect the commitment for this investment.</p> <p>As part of our audit work, we assessed this provision against the requirements of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets and concluded that it was not appropriate to recognise this planned expenditure as a provision. While there was an internal commitment for the investment, there was no obligation for this expenditure as at 31 March 2020 and therefore did not meet the requirements to be recognised as a provision.</p> <p>Management have updated the financial statements to reflect the adjustment. The net impact was to reduce expenditure by £11,078, with a corresponding increase in usable reserves. Management have ring-fenced the increase in usable reserves to ensure this is used to fund the investment in 2020/21.</p>	<p>Management agreed to adjust the financial statements to derecognise the provision.</p>
<p><b>2. Pension liability</b></p> <p>The pension liability in the financial statements included the estimated impact of the McCloud / Sargeant legal judgements. The estimated impact was first assessed by the pension fund actuary in 2018/19 and this was reflected in the 2019/20 unaudited financial statements using the most up-to-date information at that time. A potential remedy for the legal judgements was since announced and the actuary estimated this will result in decrease of up to 50% on the initial estimate.</p> <p>Management have adjusted the financial statements to reflect the updated estimate from the actuary. This net impact was to reduce expenditure by £32,500, with a corresponding decrease in the pension liability and the pension reserve.</p>	<p>Management agreed to adjust the financial statements to reflect the updated estimate from the actuary.</p>

## Other findings

**24.** Management recognised a provision of £6,397 in the 2019/20 financial statements in relation to untaken staff leave. This had been recognised as an accrual in prior years' financial statements. Following discussions with management, it was agreed that recognising this as a provision was not appropriate and should continue to be recognised as an accrual. Management agreed to this adjustment and reclassified the balance. As this was a classification adjustment, this did not impact on net expenditure for the year or the net Balance Sheet position.

### **Adjustments of £49,975 were processed in the accounts. These were greater than our performance materiality, but we did not need to revise our audit approach**

**25.** Total adjustments of £49,975 were processed in the accounts. These related to the ICT provision and pension liability discussed above in [Exhibit 2](#) and the provision for untaken staff leave discussed in paragraph 24. We have concluded that the adjustments were due to the specific circumstances around the items in question, were isolated and identified in their entirety, and do not indicate further systemic error.

**26.** It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected. Although, the final decision on making the correction lies with those charged with governance considering advice from senior officers and materiality.

**27.** There were no adjustments, other than those outlined in paragraph 25, above our reporting thresholds identified from our audit.

# Part 2

## Financial sustainability and the Annual Governance Statement



### Main judgements

A surplus of £25,269 for the financial year 2019/20 was achieved, compared to a budgeted deficit of £20,000; which represents an underspend of £45,269.

The audited annual accounts for 2019/20 confirm a reserves balance of £123,000 as at 31 March 2020, of which £11,000 has been ringfenced for the delayed investment in the ICT infrastructure. It has been agreed that only 50% of the revenue reserve balance of £112,000 can be utilised to meet the potential projected deficit of £167,000 forecast for 2020/21. Any overspend above this value will require further approval or be managed through other arrangements.

We have previously made recommendations highlighting the need to review and update policies and procedures within the Governance Framework. With the changes to governance in 2020/21, this has been superseded. The Joint Committee and management should assure themselves that governance arrangements remain appropriate as future operations are progressed by the member authorities.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

### Financial performance in 2019/20

**28.** The Joint Committee approved the 2019/20 budget in February 2019. However, it was noted within the report that in agreeing the prior 2018/19 revenue estimates and associated requisitions, the Joint Committee had agreed that options be developed to address the financial outlook for CMPA due to the reduction in requisition income.

**29.** In June 2019 the Joint committee approved the revised 2019/20 budget. Total budgeted expenditure was £0.944 million and total budgeted income was £0.924 million. This resulted in a budget gap of £20,000 that was to be addressed through the use of reserves. This funding gap was due to anticipated voluntary redundancy costs with any additional redundancy costs incurred being met through additional funding from the member authorities.

**30.** Actual outturn in 2019/20 was total expenditure of £0.941 million and total income of £0.966 million, resulting in a surplus of £25,269 for the financial year 2019/20. This is compared to a budgeted deficit of £20,000, which represents an underspend of £45,269. Details on the variances are outlined in the Management Commentary within the annual accounts.

## Short term financial planning

**31.** The Joint Committee approved its 2020/21 revenue estimates in February 2020. However, it was reported that the level of requisition income available from all member councils had reduced, most significantly in the case of North Ayrshire Council who advised that they would not be in a position to make any requisition payment in 2020/21.

**32.** As part of the budget setting process, revenue estimates have previously been prepared for a three-year period. This allows management and members to identify pressures and take early actions to mitigate against these pressures. The February 2020 budget paper advised that, given the impact of the loss of income on the financial position of CMPA, budget estimates for a single year only had been outlined and that reserves would be utilised. The approved revenue estimates forecast a deficit of £82,400; with the Joint Committee agreeing the use of reserves up to £30,000. The budget was approved with an expectation that an updated financial outlook would be presented to the Joint Committee at its meeting in June 2020.

**33.** In June 2020 the Joint Committee approved revised revenue estimates. The report outlined that since the revenue estimates were agreed in February 2020, services delivered in the Park have been severely affected by the COVID-19 pandemic, with organised activities and commercial operations ceasing. This has had a significant financial impact with no commercial income being generated. Commercial income is crucial to the financial sustainability and accounts for nearly half of CMPA's income.

**34.** Revised budgeted expenditure was £0.603 million and total budgeted income was £0.436 million. The impact of COVID-19 increased the forecast deficit to £0.167 million, assuming no commercial income is generated in 2020/21. The largest source of income for CMPA is requisitions from members and this has reduced from £0.547 million in 2019/20 to £0.436 million in 2020/21.

## Medium to long term financial planning

**35.** We reviewed the financial planning systems and assessed how effective they are in identifying and addressing risks to financial sustainability across the medium and long term.

**36.** The audited annual accounts for 2019/20 confirm a reserves balance of £123,000 as at 31 March 2020, of which £11,000 of which has been ringfenced for the delayed investment in the ICT infrastructure outlined in [Exhibit 2](#). At the Joint Committee meeting in June 2020 it was agreed that only 50% of the revenue reserve balance of £112,000 held as at the 31 March 2020 could be utilised to meet the potential projected deficit of £167,000 forecast for 2020/21. Any overspend above this value would need to be approved by the Joint Committee or managed through alternative arrangements (e.g. efficiency savings).

**37.** The Park Co-ordinator and the Treasurer continue to examine all options for cost mitigation and income generation, including the investigation of existing project balances as to whether these balances (reflected as creditors in the annual accounts) may be released to support the financial position.

**38.** However, it is possible that additional financial support from requisitioning councils will be required in 2020/21. From the work carried out, we have concluded that CMPA has adequate financial planning arrangements in place however cost pressures continue as outlined above.

## Future governance and follow up of prior year recommendations

**39.** North Ayrshire Council confirmed in June 2020 that it will not provide funding after 2019/20 and will be withdrawing from the Joint Committee. Subsequently, further discussions between Renfrewshire Council and Inverclyde Council officers have taken place. Both have agreed the most appropriate option is to terminate the Minute of Agreement and wind up the Joint Committee with effect from 31 March 2021.

**40.** Thereafter, the three Councils will make decisions separately regarding the parts of the Regional Park lying within their respective boundaries. Management have concluded this will not impact on the designation of Clyde Muirshiel as a Regional Park or the Country Park designations for Muirshiel and Castle Semple. This can therefore be considered to be a change in governance arrangements only as services are likely to continue to be delivered.

**41.** The Annual Governance Statement outlines the Minute of Agreement, Procedural Standing Orders, Scheme of Delegation and Financial Regulations are some of the main features of the governance arrangements. In our [2016/17 Annual Audit Report](#), a recommendation was made regarding the policies and procedures within the Governance Framework and their need to be reviewed and updated. This was followed up in our last two Annual Audit Reports and it was confirmed this review was outstanding.

**42.** The statement outlines a revised deadline of March 2021 for this review to be carried out. With the decision to wind up the Joint Committee in March 2021, this recommendation has been superseded and is no longer considered to be significant to operations. The Joint Committee and management should assure themselves that governance arrangements remain appropriate as future operations are progressed by the member authorities.

## **Annual Governance Statement**

**43.** Our review of the Annual Governance Statement assessed the assurances which are provided to the Joint Committee and Treasurer regarding the adequacy and effectiveness of the committee's system of internal control which operated in the financial year. The statement also summarises internal audit findings with the Chief Internal Auditor's annual assurance statement concluding 'that a reasonable level of assurance can be placed upon the adequacy and effectiveness of Clyde Muirshiel Park Authority's internal control, risk management the Joint Committee's governance framework, risk management and governance arrangements'.

**44.** We concluded that the information in the Annual Governance Statement is consistent with the financial statements and complies with the guidance issued by the Scottish Ministers.

# Appendix 1

## Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion.

<b>Risks of material misstatement in the financial statements</b>		
<p><b>1 Risk of material misstatement caused by management override of controls</b></p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>No unusual or inappropriate transactions were identified as part of our detailed journal testing.</p> <p>A review of accounting estimates did not show any evidence of bias.</p> <p>Focused testing of accruals and prepayments did not identify any balances that were incorrectly held on the Balance Sheet.</p> <p>Focused testing on a sample of transactions outside the normal course of business did not show any evidence of management override of controls.</p> <p><b>Conclusion: no evidence of management override of controls.</b></p>
<p><b>2 Risk of material misstatement caused by fraud over income</b></p> <p>As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. There is a risk that income may be materially misstated in the financial statements.</p> <p>While the majority of CMPA's income is requisitions from member authorities, a significant amount is generated from other sources, including income generated from sales, fees, and charges. The extent and complexity of this other income means that there is an inherent risk of fraudulent or erroneous reporting of income to achieve a desired financial position.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of income transactions focusing on whether income is processed in the correct accounting year.</p>	<p>Analytical procedures were carried out over all income streams and satisfactory responses were provided for all significant variances.</p> <p>Detailed testing of revenue transactions confirmed these were normal business transactions and had been accounted for in the correct year.</p> <p><b>Conclusion: no evidence of fraud over income.</b></p>

### 3 Risk of material misstatement caused by fraud over expenditure

Most public-sector bodies are net expenditure bodies and therefore the risk of fraud is more likely to occur in expenditure. There is a risk that expenditure may be materially misstated in the financial statements.

CMPA incurs expenditure on a range of activities. The extent and complexity of expenditure means that there is an inherent risk of fraudulent or erroneous reporting of expenditure to achieve a desired financial position.

Analytical procedures on expenditure streams.

Detailed testing of expenditure transactions focusing on whether expenditure is processed in the correct accounting year.

Analytical procedures were carried out over all expenditure streams and satisfactory responses were provided for all significant variances.

Detailed testing of expenditure transactions confirmed these were normal business transactions and had been accounted for in the correct year. An issue was identified with expenditure being incorrectly recognised for the ICT provision in year (see [Exhibit 2](#)). However, this was corrected by management.

**Conclusion: no evidence of fraud over expenditure.**

### 4 Risk of material misstatement caused by accounting for pensions

CMPA recognised a net liability of £0.593 million relating to its share of Strathclyde Pension Fund at 31 March 2019. There is a significant degree of subjectivity in the measurement and valuation of the pension fund liability. The valuation is based on specialist assumptions and estimates, and changes can result in material changes to the valuation.

Additionally, successful legal action was brought against the UK government in relation to pension schemes for judges and firefighters in 2018/19, on the grounds of age discrimination. The judgements for these pension schemes will impact on Strathclyde Pension Fund as it had similar arrangements in place. Uncertainty remains over the remedy for the legal judgements. The expected impact of the legal judgements, or remedy if agreed, will need to be reflected in the pension fund liability valuation in 2019/20.

Completion of 'review of the work of Management's expert' for the pension fund actuary.

Review of the estimates used, and assumptions made in calculating the pension fund liability.

A review of the actuary and the assumptions made in calculating the estimated pension liability was carried out and found the approach and assumptions used by the actuary to be reasonable and in line with expectation.

As outlined in [Exhibit 2](#), an adjustment was processed to reflect an updated estimate of the impact of the McCloud / Sargeant legal judgements.

**Conclusion: the estimates and judgements made to calculate the net pension liability were reasonable.**

## Risks identified from the auditor's wider responsibility under the Code of Audit Practice

### 5 Financial sustainability

The 2019/20 Revenue Estimates highlight uncertainties in future

Review of budget monitoring reports and future Revenue Estimates and discussions with management on

A review of budget monitoring reports, revenue estimates, and the financial statements highlight concerns around financial

funding and increasing pressures on available resources. A voluntary release exercise has been carried out and this is expected to result in a recurring benefit. However, it is likely savings will still be required in the medium term to achieve a breakeven position and maintain reserves at an appropriate level.

CMPA's medium term financial position. Conclude on financial position and financial sustainability within the Annual Audit Report.

sustainability. A significant deficit of £0.167 million is forecast for 2020/21 and there are restrictions on the amount of reserves that can be used to achieve financial balance. This leads to challenges in maintaining operations at current levels with the resources available.

**Conclusion: CMPA continues to operate in a challenging financial climate, with difficulties in delivering existing services with the current levels of resources. Management continues to review future options.**

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# Clyde Muirshiel Park Authority

## 2019/20 Annual Audit Report

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