

Glasgow City Region - City Deal Cabinet Joint Committee

2019/20 Annual Audit Report



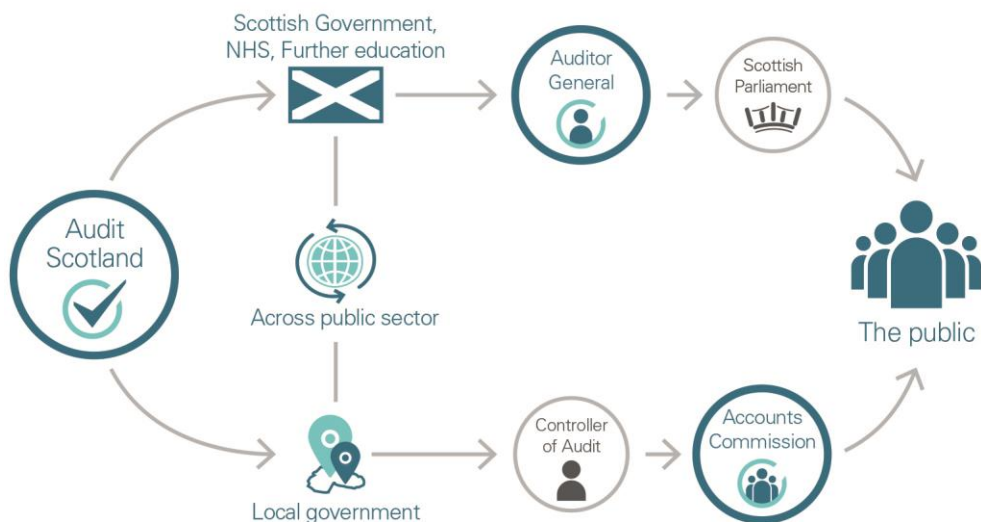
Prepared for the Glasgow City Region – City Deal Cabinet Joint Committee and the Controller of Audit

October 2020

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- 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

2019/20 annual accounts

- 1** In our opinion, the financial statements of Glasgow City Region – City Deal Cabinet Joint Committee give a true and fair view and were properly prepared.
- 2** We concluded that the management commentary is consistent with the financial statements and properly prepared in accordance with the applicable requirements.

Financial sustainability and governance

- 3** We concluded that financial management is effective, with a budget process focused on the Cabinet's priorities.
- 4** We concluded that the annual governance statement is consistent with the financial statements and complies with the applicable requirements.

Introduction

1. This report summarises the findings from our 2019/20 audit of Glasgow City Region – City Deal Cabinet Joint Committee (the Cabinet).
2. The scope of our audit was set out in our Annual Audit Plan presented to the 11 February 2020 meeting of the Cabinet. This report comprises the findings from:
 - an audit of the Cabinet’s annual accounts
 - our consideration of financial sustainability.
3. Subsequent to the publication of the Annual Audit Plan, in common with all public bodies, the Cabinet has had to respond to the COVID-19 pandemic. This impacted on the final month of the year and will continue to have significant impact into financial year 2020/21. Our planned audit work has had to adapt to new emerging risks as they relate to the audit of the financial statements.

Adding value through the audit

4. We add value to the Cabinet through the audit by:
 - identifying and providing insight on significant risks, and making clear and relevant recommendations
 - sharing intelligence and good practice through our national reports ([Appendix 2](#)) and good practice guides
 - providing clear conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.
5. In so doing, we aim to help the Cabinet promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

6. The Cabinet 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. The Cabinet 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 the Cabinet’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 and effectiveness of the performance management arrangements, the suitability and effectiveness of corporate governance arrangements, the financial position and arrangements for

securing financial sustainability. Further details of the respective responsibilities of management and the auditor can be found in the Code of Audit Practice 2016 and supplementary guidance.

9. The Code of Audit Practice 2016 (the Code) 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 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 and therefore the 2019/20 audit fee of £8,410 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 Cabinet and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

14. We would like to thank the management and staff for their cooperation and assistance during the audit.

Part 1

Audit of 2019/20 annual accounts



Main judgements

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

The management commentary is consistent with the financial statements and properly prepared in accordance with the applicable requirements.

Our audit opinions on the annual accounts are unmodified

15. The annual accounts are the principal means of accounting for the stewardship of the Cabinet'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 Cabinet on 6 October 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 and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the applicable requirements.

The accounting framework was changed due to the COVID-19 pandemic

18. Schedule 6 of the Coronavirus (Scotland) Act 2020 allows each local government body to determine its own revised timetable for annual accounts. Officers supporting the Cabinet were able to move to working remotely during the COVID-19 pandemic and this allowed the unaudited accounts to be provided on 15 June 2020.

19. Our original final accounts timetable included delivery of a proposed opinion to the August Cabinet meeting. However as a result of COVID-19 we had to review our resource plan across all audits and reschedule our planned audit input to deliver our proposed audit opinion for the October Cabinet meeting. This allowed the Cabinet to publish its accounts by 31 October 2020 in line with regulations.

20. 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.

21. Statutory guidance issued in response to COVID-19 also permits, but does not require, local government bodies to disapply a number of content requirements for the management commentary. However the Cabinet has chosen not to make use of this option.

Materiality

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

23. On receipt of the unaudited annual accounts we recalculated our materiality levels. We concluded that the recalculated values were not significantly different to those calculated at planning stage, and therefore did not have any impact on our audit approach.

Exhibit 1 Materiality values

Materiality level	Amount
Overall materiality	£27,300
Performance materiality	£20,500
Reporting threshold	£1,400

Source: Audit Scotland

Risks of material misstatement and our audit work to address these

24. [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.

25. We have no issues to report from our work on the risks of material misstatement.

Significant findings from the audit in accordance with ISA 260

26. 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.

Evaluation of misstatements

27. There were no misstatements above our reporting thresholds identified from our audit.

Part 2

Financial sustainability and governance



Main judgements

Financial management is effective, with a budget process focused on the Cabinet's priorities.

The annual governance statement is consistent with the financial statements and complies with the applicable requirements.

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 main financial objective of the Cabinet is to ensure that the financial outturn of the Project Management Office (PMO) for the year is within the agreed budget. The Cabinet had an underspend of £4,019 against total financial resources of £1,369,414 in 2019/20.

Short term financial planning and monitoring

29. The Cabinet is funded through contributions from member authorities on an annual basis according to an agreed formula. In February 2020, the Cabinet agreed its 2020/21 budget and recharges to member authorities of £1,267,902, which is £21,000 (1.6%) less than the 2019/20 budget allocation.

30. Contributions from member authorities are the Cabinet's sole source of income and there is more certainty over future funding streams than for some other public sector organisations that are involved in income generating activities. Therefore the focus of the Cabinet PMO is to remain within their annual budget.

31. The Cabinet meets every eight weeks and programme status update reports are presented at each meeting. These reports include a section on the financial performance of the PMO. This includes a projection of the year-end position and an explanation of any movements from the previously reported position.

32. We are satisfied with the arrangements in place for budgetary monitoring and control.

Impact of the COVID-19 pandemic

33. Dealing with COVID-19 has resulted in challenges for many organisations, although it is not expected to have a significant impact on the PMO's financial plans. All COVID-19 costs incurred during 2019/20 were contained within the 2019/20 budget and it is currently expected that all 2020/21 COVID-19 costs will be contained within the 2020/21 budget of £1.3m.

34. However, COVID-19 and resulting restrictions have impacted on the delivery of individual projects across the City Deal, and the programme risk register has been

updated to reflect the ongoing increased risks around delays to projects and the delivery of the programme's wider objectives.

35. The UK and Scottish governments have recognised the potential impact of COVID-19 on Scottish City Deals. The Cabinet has submitted a joint response to both governments that outlines what it sees as the main challenges around the delivery of projects together with proposals on how these can be mitigated.

36. Challenges identified by the Cabinet include public consultation, delays in project design, procurement and construction, increased costs, member authority capacity and achievement of planned project scope, outcomes and economic benefits. In addition, changes to economic conditions, consumer behaviour and market demand as a result of COVID-19 may require existing project plans to be revised.

Annual governance statement

37. We reviewed the annual governance statement and assessed the assurances provided to the Executive Director of Finance (as Accountable Officer) regarding the adequacy and effectiveness of the Cabinet's system of internal control which operated in the financial year.

38. There are no significant governance issues identified within the Cabinet's annual governance statement. The impact of COVID-19 has been recognised as a significant event and the effect on the control environment is being assessed by Internal Audit and may result in changes which will be considered during 2020/21. We concluded that the disclosures in the annual governance statement are consistent with the financial statements and in accordance with the relevant regulations and guidance.

Other governance matters

39. The impact of COVID-19 on the Cabinet's governance arrangements has been minimal. The April 2020 meetings of the Chief Executive's Group and the Cabinet meeting were cancelled and decisions required to be made at these meetings were taken via email. However, since then the normal cycle of meetings has been in place with all scheduled meetings taking place by teleconference.

40. The Scheme of Delegations has been updated to reflect the expected increase in the volume of full business cases (FBCs) going forward and also to address the anticipated increase in change control requests (revisions to previously approved FBCs) caused by the impact of COVID-19.

41. During 2019/20 Internal Audit carried out a review of compliance with the Assurance Framework. They identified some scope for improvement, however overall they concluded that a reasonable level of assurance could be placed on the control environment.

42. On 15th May 2020 the UK and Scottish government Ministers approved the first Glasgow City Region Deal Gateway Review, unlocking additional funding of £250 million over the next five years starting in 2020-21. This decision is contingent on a review being completed of certain arrangements within the City Deal's Assurance Framework including chairing arrangements for the Chief Executives' Group and the Cabinet and the role of the Regional Economic Partnership.

43. Actions to implement all of the required changes have been included within the Cabinet's Annual Implementation Plan for 2020/21. During 2020/21 we will monitor the Cabinet's progress in implementing the required changes.

National performance audit reports

44. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. [Appendix 2](#) highlights a number of the reports published in 2019/20.

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.

Risks of material misstatement in the financial statements

<p>1 Risk of management override of controls</p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Review the appropriateness of journals entries and other adjustments recorded in the general ledger and financial statements.</p> <p>Evaluate significant transactions that are outside the normal course of business.</p> <p>Review accounting estimates if reported in the accounts.</p>	<p>Journal entries were reviewed as part of the substantive testing of the financial statements. We did not identify any inappropriate journals.</p> <p>No significant transactions that are outside the normal course of business were identified during audit testing.</p> <p>No accounting estimates were made in preparing the financial statements.</p> <p>Conclusion: No fraud concerns were identified in respect of management override of controls.</p>
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Wider Dimension issues and risks

<p>2 Gateway Review process</p> <p>The National Evaluation Panel is currently undertaking the first Gateway Review of the City Deal Agreement and is due to report in early 2020. If the Glasgow City Region fails to pass this review, then the next tranche of City Deal Infrastructure Funding (£250 million for 2020/21 – 2024/25) is at risk.</p>	<p>Consider the suite of Gateway Review documents submitted to the UK Government and Scottish Government.</p> <p>Discussions with senior management.</p> <p>Monitor the Gateway Review progress and comment as appropriate in Annual Audit Report.</p>	<p>We monitored the Gateway Review progress during 2019/20 and reviewed relevant committee documentation. Where necessary further information was obtained from senior management.</p> <p>The Gateway Review 1 has been approved subject to changes to the Assurance Framework.</p> <p>The Cabinet has included actions in its 20/21 Annual Implementation Plan to address the changes required.</p> <p>Conclusion: The City Deal has secured the next tranche of funding.</p>
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Appendix 2

Summary of national performance reports 2019/20



		2019/20 Reports	
		Apr	
Social security: Implementing the devolved powers		May	
Scotland's colleges 2019		Jun	Enabling digital government
		Jul	
NHS workforce planning - part 2		Aug	
Finances of Scottish universities		Sept	
NHS in Scotland 2019		Oct	
		Nov	
Local government in Scotland: Financial overview 2018/19		Dec	
Scotland's City Region and Growth Deals		Jan	Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
		Feb	
		Mar	Early learning and childcare: follow-up

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