

Glasgow and the Clyde Valley Strateic Development Planning Authority

2017/18 Annual Audit Report



 AUDIT SCOTLAND

Prepared for Members of the Glasgow and the Clyde Valley Strategic Development Planning Authority
Joint Committee and the Controller of Audit

10 September 2018

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- 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.
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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

2017/18 annual report and accounts

- 1** In our opinion, Glasgow and the Clyde Valley Strategic Planning Authority's financial statements give a true and fair view and were properly prepared, and expenditure and income was in accordance with applicable enactments and guidance.
- 2** The audited part of the Remuneration Report, Management Commentary and the Governance Statement were all consistent with the financial statements.
- 3** Project income and expenditure was not recognised on the Comprehensive Income and Expenditure Statement. This resulted in income and expenditure being understated in 2016/17 and 2017/18.
- 4** The pension fund liability on the balance sheet was overstated. This was due to asset return assumptions in the actuary's report being significantly different to actual returns.

Financial sustainability and governance statement

- 5** A deficit of £0.012 million was delivered against a budgeted breakeven position and this was managed through the use of reserves.
- 6** We concluded that the information in the Governance Statement is consistent with the financial statements and complies with the guidance issued by the Scottish Ministers.

Introduction

1. This report summarises the findings from our 2017/18 audit of Glasgow and the Clyde Valley Strategic Development Planning Authority (Clydeplan).

2. The scope of our audit was set out in our Annual Audit Plan presented to the 10 March 2018 meeting of the Joint Committee. This report comprises the findings from:

- an audit of the annual accounts
- consideration of the financial sustainability and Governance Statement

3. Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are:

- financial sustainability
- financial management
- governance and transparency
- value for money.

4. 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.

5. As highlighted in our [2017/18 Annual Audit Plan](#) (paragraph 21), due to the volume and lack of complexity of the financial transactions, and nature and size of Clydeplan, we applied the small body provisions of the Code to the 2017/18 audit of Clydeplan.

6. Clydeplan has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual report and accounts that are in accordance with the accounts direction from Scottish Ministers. Clydeplan 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 are established by the Local Government (Scotland) Act 1973 and the [Code of Audit Practice 2016](#), and guided by the auditing profession's ethical guidance.

8. As public sector auditors we give independent opinions on the annual report and accounts and conclusions on securing financial sustainability and appropriateness of the Governance Statement disclosures. In doing this, we aim to support improvement and accountability.

9. 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.

10. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.

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 2017/18 audit fee of £2,810 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

12. Our aim is to add value to Clydeplan by providing insight on financial sustainability and by identifying areas of improvement and recommending good practice. In so doing, we aim to help Clydeplan promote improved standards of financial planning, better management and decision making.

13. This report is addressed to members of the Joint Committee 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 who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2017/18 annual report and accounts



Main judgements

In our opinion, Clydeplan's financial statements give a true and fair view and were properly prepared, and expenditure and income was in accordance with applicable enactments and guidance.

The audited part of Remuneration Report, Management Commentary and the Governance Statement were all consistent with the financial statements.

Project income and expenditure was not recognised on the Comprehensive Income and Expenditure Statement. This resulted in income and expenditure being understated in 2016/17 and 2017/18.

The pension fund liability on the balance sheet was overstated. This was due to asset return assumptions in the actuary's report being significantly different to actual returns.

Audit opinions on the annual report and accounts

15. The annual report and accounts for the year ended 31 March 2018 were approved by the Joint Committee on 10 September 2018. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- the audited part of the Remuneration Report, Management Commentary and Governance Statement were all consistent with the financial statements and properly prepared in accordance with the accounts direction
- we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

The annual report and accounts are the principal means of accounting for the stewardship of its resources and its performance in the use of those resources.

Submission of annual report and accounts for audit

16. We received the unaudited annual report and accounts on 11 June 2018 which was earlier than our agreed audit timetable.

17. The unaudited annual report and 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.

Risks of material misstatement

18. [Appendix 2](#) provides a description of areas we assessed as being at risk of material misstatement at the planning stage, how we addressed them and our conclusions thereon. These risks influenced our overall audit strategy, the allocation of staff resources to the audit and how the efforts of the audit team were directed.

Materiality

19. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. When deciding on what is material we consider both the amount and nature of the misstatement.

20. We carried out our initial assessment of materiality for the annual report and accounts during the planning phase of the audit. On receipt of the unaudited annual report and accounts we reviewed our planning materiality calculations and concluded that, while the values changed slightly, they remained appropriate and these are summarised in [Exhibit 1](#).

Exhibit 1

Materiality values

Materiality level	Annual Audit Plan	Unaudited annual report and accounts
Overall materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1 per cent of gross expenditure for the year ended 31 March 2018.	£6,000	£7,000
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 75 per cent of overall materiality.	£4,500	£5,200
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount.	£1,000	£1,000

Source: Annual Audit Plan 2017/18

How we evaluate misstatements

21. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are corrected. The final decision on this lies with those charged with governance considering advice from senior officers and materiality. There were two material adjustments to the unaudited financial statements which are outlined in [Exhibit 2](#). There were no other errors above the reporting threshold.

Significant findings from the audit (ISA 260)

22. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance. These are summarised in [Exhibit 2](#).

Exhibit 2

Significant findings from the audit of Clydeplan

Issue	Resolution
<p>1. Project income and expenditure</p> <p>Clydeplan manage projects which generate income and incur expenditure. These projects are part of Clydeplan's operations, therefore income and expenditure associated with these projects should be recognised on the Comprehensive Income and Expenditure Statement (CIES) each year. Any balance at the year end should be recognised on the Balance Sheet.</p> <p>The year end balance has been recognised on the Balance Sheet but income and expenditure incurred in year has been processed through a suspense account and was not recognised on the CIES. This resulted in income and expenditure being understated by £41,524 in 2017/18. The same accounting treatment was applied in 2016/17 which resulted in income and expenditure being understated by £69,151 in 2016/17.</p>	<p>To correct these errors, adjustments to the 2016/17 and 2017/18 figures in the audited accounts have been processed. The impact of the adjustments was to increase income and expenditure in both years. There was no impact on the deficit on the provision of services as the additional income and expenditure recognised was offset.</p>
<p>2. Pension scheme valuation</p> <p>Clydeplan accounts for its share of Strathclyde Pension Fund in accordance with International Accounting Standard 19 Employee Benefits (IAS 19). This relies on valuations of pension fund assets and liabilities by the actuary. The timing of actuarial reports means that actuaries produce their IAS 19 reports using estimated data for the final part of the year. Asset returns estimated by the actuary for the final part of the year were significantly lower than actual returns. This resulted in pension fund assets reported in Clydeplan's balance sheet being understated by £71,000</p>	<p>This was corrected by management. An adjustment was processed to reflect Clydeplan's share of the pension fund assets based on the latest valuation at 31 March 2018. This had the impact of reducing the pension fund liability and increasing the pension reserve by £71,000. As local government accounting regulations require the general fund to be charged with amounts payable to the pension fund or directly to pensioners during the year rather than amounts calculated according to IAS 19, this adjustment does not impact the outturn for the year or the general fund balance.</p>

Other issues

23. The Accounting Code outlines that for financial statements to be useful, they must provide a faithful representation of financial information with the substance of a transaction/process being reported as opposed to its legal form.

24. The financial statements disclose that Clydeplan does not have the power to hold assets therefore any capital expenditure is treated as revenue expenditure.

25. A similar disclosure issue was identified with Clydeplan's reserves. The financial statements outline Joint Committees have no specific powers to hold reserves therefore reserves are transferred to creditors. Any reserves that have been built up will ultimately be returned to the member councils upon the cessation of Clydeplan or when the Joint Committee decides to reimburse the reserves to member councils.

26. Discussions with management are ongoing to conclude whether the current treatment of capital expenditure and reserves is appropriate or needs to be revised going forward.



Recommendation 1

Going forward, management should review how capital expenditure and reserves are disclosed within the financial statements.

Follow up of prior year recommendations

27. We have followed up actions previously reported and assessed progress. Two agreed actions were raised in 2016/17 and both have been fully actioned as outlined in [Appendix 1](#).

Part 2

Financial sustainability and governance statement



Main judgements

A deficit of £0.012 million was delivered against a budgeted breakeven position and this was managed through the use of reserves.

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

Financial performance in 2017/18

28. The Joint Committee approved the 2017/18 budget in December 2016. Total budgeted expenditure was £0.599 million and total budgeted income was £0.599 million resulting in a breakeven position.

29. Actual outturn in 2017/18 was total expenditure of £0.628 million and total income of £0.616 million. This resulted in a deficit of £0.012 million that was met through the use of reserves.

30. During the year an appeal was lodged by a developer in response to the Strategic Development Plan which was approved by the Scottish Ministers in July 2017. The appeal was against the Scottish Ministers but Clydeplan was named as an interested party. Clydeplan incurred costs of around £0.020 million on legal advisers in responding to the appeal. The appeal was heard by the Court of Session and a decision was made to dismiss the case. Clydeplan made a claim to recover costs and this was heard in July 2018. The total costs to be awarded to Clydeplan are yet to be finalised.

Short term financial planning

31. The largest source of income for Clydeplan is requisitions from members of the Joint Committee. A small proportion of income is also generated from services provided to the Green Network Partnership.

32. The Joint Committee approved the 2018/19 budget in December 2017. Total budgeted expenditure was £0.618 million and total budgeted income was £0.599 million. This resulted in a budget gap of £0.019 million that is to be addressed through efficiency savings or the use of reserves. Requisition income remained unchanged at £0.580 million.

Medium to long term financial planning

33. 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.

34. As part of the budget setting process, revenue estimates are prepared for a three year period. This allows management and members to identify pressures and take early actions to mitigate against these pressures.

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.

35. As outlined in paragraph 31, the 2018/19 budget identifies a budget gap of £0.018 million. The budget also forecasts a budget gap in 2019/20 and 2020/21 of £0.033 million and £0.048 million respectively. These are also expected to be addressed through efficiency savings or the use of reserves. The main driver of the budget gap is increased employee costs. With the removal of the cap on public sector pay, there is more uncertainty around employee costs each year.

36. From the work carried out, we have concluded that Clydeplan has adequate financial planning arrangements in place. Cost pressures are expected to arise in the medium term, mainly due to employee costs. However, the financial planning arrangements in place have allowed management to plan for these pressures and ensure necessary actions are taken when required.

Governance statement

37. Our review of the Governance Statement assessed the assurances which are provided to the Strategic Development Plan Manager 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 the Glasgow and the Clyde Valley Strategic Development Planning Authority's internal controls, risk management and governance arrangements'.

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

General Data Protection Regulation

39. The General Data Protection Regulation (GDPR) became enforceable on 25 May 2018. The regulation made changes to data protection laws and the ways in which entities address data protection compliance. Failure to comply with the regulation could result in significant sanctions.

40. Renfrewshire Council has been providing support to Clydeplan in preparation for GDPR. As a Joint Committee, Clydeplan is not specifically impacted by the requirements of GDPR. However, management have decided it will fall within the arrangements in place at Renfrewshire Council, as host authority, and the Data Protection Officer (DPO) of Renfrewshire Council will assume responsibility of data protection arrangements at Clydeplan.

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Capital expenditure and reserves</p> <p>The financial statements disclose Clydeplan does not have the power to hold assets or reserves therefore capital expenditure and reserves are not reflected within the financial statements.</p> <p>Risk</p> <p>There is a risk the financial statements do not fully reflect the substance of Clydeplan's transactions.</p>	<p>It is recommended that going forward management review how capital expenditure and reserves are reported in the financial statements.</p> <p>Paragraph 24 - 27</p>	<p>This will be reviewed and updated as appropriate.</p> <p>Responsible officer: Head of Finance</p> <p>Target date: 31 March 2019</p>

Follow up of prior year recommendations

b/f	<p>1. Medium term financial planning</p> <p>A review of committee papers and minutes identified no medium or longer term financial planning is carried out and no scenario planning on savings is carried out either. As a result, there is a risk members have insufficient information to make informed decisions.</p>	<p>It is recommended scenario planning is carried out to highlight the impact of possible developments to members.</p>	<p>The 2018/19 budget included revenue estimates to 2020/21.</p> <p>Responsible officer: Head of Finance</p> <p>Target date: 31 March 2018</p> <p>Actual date: 11 December 2017</p>
b/f	<p>2. Contract standing orders</p> <p>A review of the contract standing orders was carried out which highlighted information that was not up to date. As a result, there is a risk that the process and procedures in respect of granting contracts are not up to date and in line with legislation.</p>	<p>It is recommended that the contract standing orders are reviewed and updated.</p>	<p>The contract standing orders were revised and approved by the Joint Committee.</p> <p>Responsible officer: Head of Corporate Governance</p> <p>Target date: 31 March 2018</p> <p>Actual date: 11 September 2017</p>

Appendix 2

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. The risks are categorised between those where there is a risk of material misstatement in the annual report and accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</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 in order 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>Conclusion: no evidence of management override of controls.</p>
<p>2 Risk of fraud over income</p> <p>The majority of Clydeplan's income is in the form of requisitions from member authorities. However, a proportion of income is generated from other sources. As a result, in accordance with ISA 240, there is an inherent risk of fraud that requires an audit response.</p>	<p>Analytical procedures on income streams.</p> <p>Detailed testing of revenue transactions focusing on the areas of greatest risk.</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. An error was identified in how project income is reported which resulted in income being understated. However, this was corrected by management.</p> <p>Conclusion: no evidence of fraud over income.</p>
<p>3 Risk of fraud over expenditure</p> <p>ISA 240 presumes a risk of fraud over income which is expanded to include</p>	<p>Analytical procedures on expenditure streams.</p>	<p>Analytical procedures were carried out over all expenditure streams and satisfactory</p>

Audit risk	Assurance procedure	Results and conclusions
<p>fraud over expenditure in the public sector by the Code of Audit Practice</p> <p>The risk of fraud over expenditure applies due to the variety and extent of expenditure incurred by Clydeplan in delivering services.</p>	<p>Detailed testing of expenditure transactions focusing on the areas of greatest risk.</p>	<p>responses were provided for all significant variances.</p> <p>Detailed testing of expenditure transactions confirmed these were normal business transactions and had been accounted for in the correct year. An error was identified in how project expenditure is reported which resulted in expenditure being understated. However, this was corrected by management.</p> <p>Conclusion: no evidence of fraud over expenditure.</p>

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

<p>4 General Data Protection Regulation</p> <p>The General Data Protection Regulation (GDPR) becomes enforceable in May 2018. The regulation makes changes to data protection laws and the ways in which entities address data protection compliance. Failure to comply with the regulation can result in significant sanctions.</p> <p>Ensuring compliance with the regulation is resource intensive and will require a designated Data Protection Officer (DPO). Clydeplan will need to ensure it is prepared for GDPR and has the necessary arrangements in place for the enforcement date.</p>	<p>Attendance at Joint Committee meetings and review of Joint Committee meeting papers.</p> <p>Discussions with management to monitor and discuss developments.</p>	<p>Renfrewshire Council has been providing support to Clydeplan for GDPR. The DPO of Renfrewshire Council will assume responsibility for data protection arrangements at Clydeplan.</p> <p>Conclusion: GDPR has only been enforceable for a short period of time. Steps have been taken by management to ensure the statutory requirements of GDPR have been met. Compliance with GDPR will be assessed as part of our audit work over the remainder of the audit engagement.</p>
<p>5 Changes to the Scottish planning system</p> <p>The draft Planning Bill was introduced in December 2017. The Bill will repeal the provisions requiring the formation of Strategic Development Planning Authorities and the production of Strategic Development Plans. If passed by Parliament in its current form this will result in the cessation of Clydeplan.</p> <p>There is uncertainty in timings but the proposed changes could impact on Clydeplan's ability to carry out day to day operations and meet its future objectives.</p>	<p>Attendance at Joint Committee meetings and review of Joint Committee meeting papers.</p> <p>Discussions with management to monitor and discuss developments.</p> <p>Monitor progress of draft Planning Bill through Parliamentary process.</p>	<p>The draft Planning Bill has been progressing through the Parliamentary process. The Stage 1 report was published in May 2018 and debated by Parliament in the same month. Stage 2 of the Parliamentary process is expected to be completed in November 2018 and the Government have indicated the Bill will be updated to provide greater clarity and reflect the outcome of the Stage 1 debate.</p> <p>Management have responded to the Draft Bill and gave oral and written evidence at various stages of the Parliamentary process. Management have also been in discussions with the Glasgow City Region partnership to discuss the role, function and governance of</p>

Audit risk	Assurance procedure	Results and conclusions
		<p>Clydeplan as part of this partnership.</p> <p>Conclusion: the Draft Bill is still progressing through the Parliamentary process and management have given evidence on the Draft Bill. Management have also been in discussions with the Glasgow City Region partnership to discuss the role of Clydeplan in developments. There are still uncertainties about the role of Clydeplan going forward as no decisions have yet been made. Progress and developments will continue to be monitored and discussed with management.</p>

Glasgow and the Clyde Valley Strategic Development Planning Authority

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