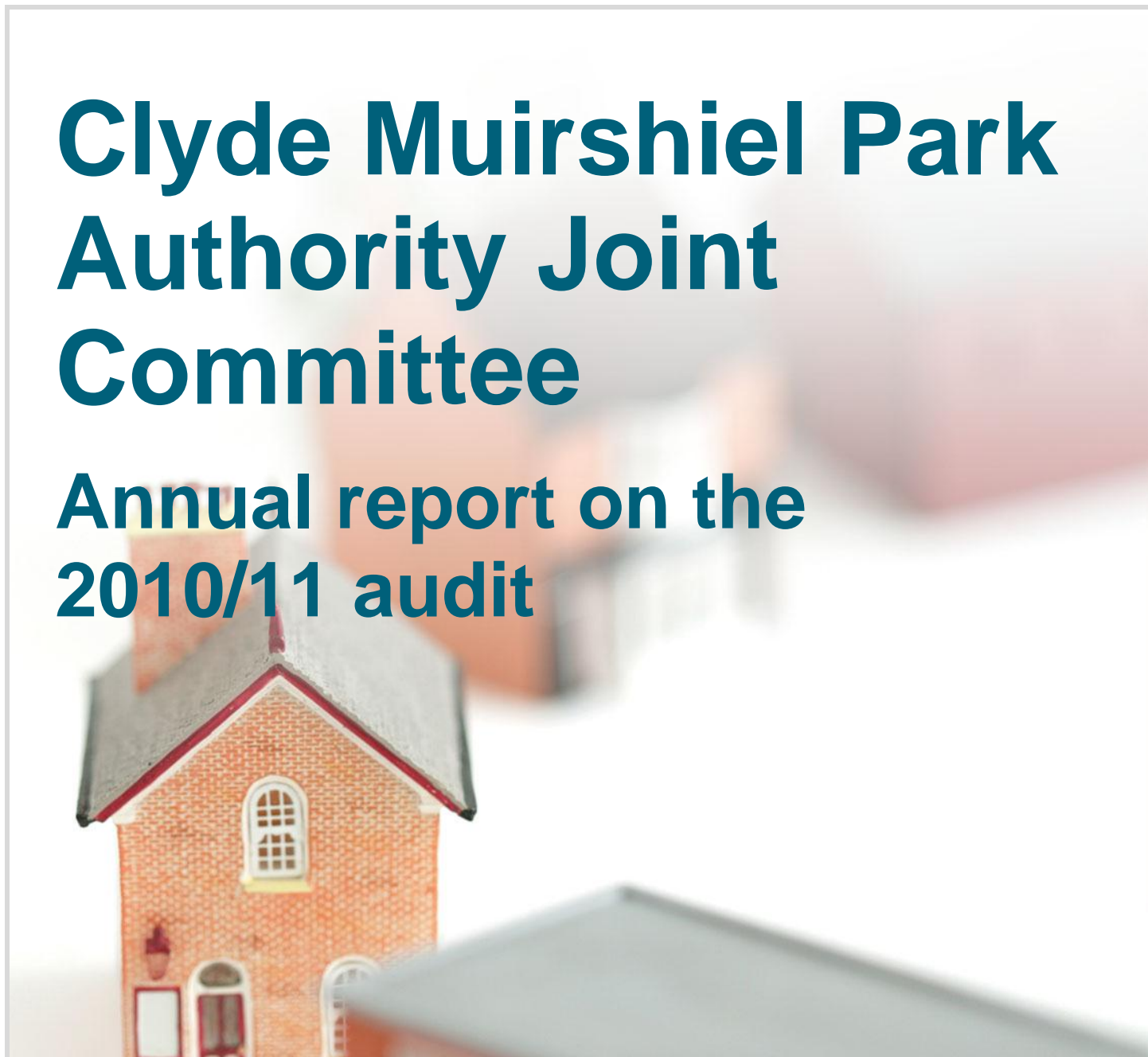


Clyde Muirshiel Park Authority Joint Committee

Annual report on the 2010/11 audit



Prepared for Members of Clyde Muirshiel Park Authority Joint Committee and the Controller of Audit
October 2011

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Key messages

2010/11

In 2010/11, we audited the financial statements and looked at aspects of governance within Clyde Muirshiel Park Authority Joint Committee (CMPA). This report sets out our main findings.

Overall, we found the financial stewardship of CMPA during the year to be satisfactory. The main conclusions and outcomes from the audit are highlighted below:

- An unqualified opinion has been issued on the financial statements for 2010/11.
- Final accounts preparation procedures and working papers were of a good standard and this enabled the audit to progress smoothly.
- CMPA has a sound corporate governance framework.

Renfrewshire Council provide internal audit services to CMPA. The Statement on the System of Internal Financial Control for the year 2010/11, signed by the Treasurer and the Park Manager, concluded that CMPA has in place a sound system of internal financial control with no identified material weaknesses. Our audit work resulted in findings consistent with that opinion.

Outlook

Looking ahead, it is clear that the outlook for public spending for the period 2012/13 to 2014/15 remains very challenging. The high level figures for Scotland that were announced in the UK Comprehensive Spending Review indicate that significant budget reductions will be required in these years.

In addition the Audit Scotland Report "Scotland's public finances: responding to challenges" contained a number of key messages for councils and other local government bodies to consider given the financial constraints being faced.

Introduction

1. The members and officers of CMPA are responsible for the management and governance of the organisation. As external auditors, we review and report on the arrangements in place and seek to gain assurance that:
 - The financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed.
 - CMPA's system of recording and processing transactions provides an adequate basis for the preparation of the financial statements and the effective management of assets and interests.
 - CMPA has adequate corporate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability.
 - The systems of internal control provide an appropriate means of preventing or detecting material misstatement, error, fraud or corruption.
 - CMPA has proper arrangements for securing best value in its use of resources.
2. This report summarises the most significant issues arising from our work during 2010/11.

Financial statements

3. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
4. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
5. Auditors review and report on, as appropriate, other information published with the financial statements, including the explanatory foreword, statement on the systems of internal financial control and the remuneration report. This section summarises the results of our audit of the financial statements.

Audit opinion

6. We have given an unqualified opinion on the financial statements of CMPA for 2010/11, concluding that the financial statements:
 - give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2010 Code, of the financial position of the joint committee as at 31 March 2011 and its income and expenditure for the year then ended
 - have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Legality

7. Through our planned audit work we consider the legality of the joint committee's financial transactions. In addition the Treasurer has confirmed that, to the best of her knowledge and belief the financial transactions of the joint committee were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

Statement of the System of Internal Financial Control

8. We are satisfied with the disclosures made in the Statement of the System of Internal Financial Control and the adequacy of the process put in place by the joint committee to obtain the necessary assurances. The statement reports that the joint committee has in place a sound system of internal financial control which is in line with findings from our tests of controls and also with the findings of internal audit. In addition, this finding is in line with our findings from the audit of the host authority, Renfrewshire Council, where we found no significant weaknesses in the systems which are used by the joint committee.

Remuneration report

9. We are satisfied that the remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011. The disclosures within the 2010/11 financial statements include all eligible remuneration for the relevant joint committee officers and elected members.

Accounting issues

10. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010 Code). We are satisfied that the joint committee prepared the 2010/11 financial statements in accordance with the 2010 Code.

Accounts preparation & submission

11. CMPA's financial statements were submitted to the Controller of Audit by the deadline of 30 June.
12. The 2010 Code saw the full implementation of Internal Financial Reporting Standards (IFRS) for the first time. The main impact this had on the accounts was to introduce new primary statements. The first of these is the Movement in Reserves Statement (MIRS). This new statement includes some of the items from the previous Statement of Movement on the Revenue Reserve as well as introducing some items concerning the other reserves held. The Comprehensive Income & Expenditure Account combines the features of the former Income & Expenditure Account and Statement of Recognised Gains & Losses. The other primary statements (the Balance Sheet and the Cash Flow Statement) remain relatively similar to as before with the latter now containing some information (at the bottom) which was previously included within a separate note.
13. Final accounts preparation procedures and working papers were generally of a good standard. The audit resulted in mainly presentational and other minor changes. The most significant of these were in relation to the presentation of the Movement in Reserves Statement and the Comprehensive Income & Expenditure Account where a format was agreed upon that best fit the requirements of the Code. This did not result in a change to the value of reserves held by the joint committee.
14. One other significant new feature from the implementation of IFRS is the introduction of an accrual regarding untaken staff annual leave at year-end. The work carried out here involved comparing the amount of time taken off at 31 March 2011 for all staff members and comparing this to the amount of time due for the period elapsed, i.e. an officers total annual leave requirements for the year pro-rata for the amount of the leave year completed at the financial year-end. The method employed by finance officers at the host authority was reviewed and found to be satisfactory. Statutory guidance was issued by the Scottish Government for the creation of a new reserve balance (the Employee Statutory Adjustment Account) in order to ensure that this new accrual has no impact on the level of revenue reserves held.

15. We issued our report on the audit of the financial statements (in compliance with the International Auditing Standard 260) on 15 September 2011 which indicated our intention to give an unqualified opinion on the financial statements for the joint committee. The audit certificate was duly signed off on 28 September 2011.

Prior year adjustments

16. The 2010/11 financial statements have been prepared in accordance with the 2010 Code which is based on International Financial Reporting Standards (IFRS) instead of the previous practice of preparing financial statements under UK Generally Accepted Accounting Practice (GAAP). This transition required a prior year adjustment to the 2009/10 audited financial statements and the restatement of the 1 April 2009 opening balance sheet position. The only item requiring an adjustment was the inclusion of the accrual for untaken employee benefits such as annual and flexi leave at 31 March 2011. This change has resulted in the net liability position of the joint committee as at 31 March 2010 changing from £768,000 to £791,428. However the new Employee Statutory Adjustment Account referred to previously ensures that this results in no change to the revenue reserves held by the joint committee.
17. In addition a prior year adjustment has also been required for in relation to a debtors balance which was understated in the 2009/10 accounts to the value of £4,728. The corresponding entry is a decrease in the Funds Held by Renfrewshire Council therefore this also does not result in a change to the revenue reserves. A note has been inserted into the financial statements (number 16 on page 31) in order to clarify.

Pension costs

18. CMPA is a member of Strathclyde Pension Fund, a multi employer defined benefit scheme. The council's share of net assets within the scheme as at 31 March totalled £2,000 which represents a movement of £770,000 from the liability position of £768,000 from the previous year. The improvement in the joint committee's asset/liability is attributable to pay freeze agreements and the change from retail price indexation to consumer price indexation in measuring future pension increases. It is important to note that pension scheme valuations are sensitive to stock market movements and as such represent a snapshot picture as at 31 March 2011.

Outlook

Audit appointment for 2011/12

19. Audit appointments are made by the Accounts Commission, either to Audit Scotland staff or to private firms of accountants for a five year term. 2010/11 is the last year of the current audit appointment and we would like to thank officers and members for their assistance during the last five years. The procurement process for the next five years was completed in May 2011. From next year (2011/12) Audit Scotland will again be the appointed auditor for CMPA but a different audit team will be in place. We look forward to continuing the good working relationships that exist.

Financial position

20. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
21. Auditors consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
22. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

Budgetary control

23. In 2010/11 the CMPA generated a surplus on the provision of services of £314,707. The surplus as presented in the Foreword of the financial statements on page 4 of £47,257 is different because this is net of pension adjustments and movements in the untaken annual leave accrual. As the budget is prepared without these adjustments it is appropriate for the analysis in the foreword to be presented in this way. The outturn analysis in the foreword records a smaller surplus than budgeted for due mainly to additional expenditure related to the hen harrier camera project.

Financial position

24. CMPA's balance sheet as at 31 March 2011 reflected net liabilities of £17,979, an improvement of £773,449 over the previous year mainly due to movement in the pension asset/liability during 2010/11. In addition, the level of the accrual in respect of employees' untaken annual and flexi leave at year-end has reduced over the year which has further reduced the overall net liability position. As stated above a new adjustment account has been set up which ensures this accrual has no impact on the level of revenue reserves held. In addition, advice received via the host council (Renfrewshire) from the appointed actuaries stated that asset holdings and planned increases in employers' contributions provide sufficient security and income to meet future pension liabilities. In light of these factors, it is reasonable that the accounts are prepared on a going concern basis.
25. In the covering report to the 2010/11 revenue estimates, the Treasurer recommended that available funds should be in the region between £50,000 and £60,000. The level of revenue reserves held by CMPA at 31 March 2011 however was only £18,415. This represents a

greatly improved position from a year previous when the reserve was in a deficit position of £28,842 however, it is still some way short of the level suggested by the Treasurer. Officers state that the deficit position was brought about as a result of the need to buy out staff terms and conditions and was not anticipated. As the CMPA is not permitted to hold reserves, these funds are disclosed within the creditors' line on the face of the balance sheet (as the funds are in a surplus position and are in effect owed back to the member authorities).

Outlook

2011/12 budget

26. In the covering report to the 2011/12 revenue estimates, the Treasurer recommended that available funds should as a minimum be in the region between £20,000 and £25,000. It is intended that this will be achieved by the end of 2011/12. As reported in paragraph 24, the CMPA reported a year-end surplus balance of £18,415 therefore a surplus is again required for 2011/12 (forecast at being £10,900). This will have to be achieved against a backdrop of a second year of reducing requisitions from member authorities (down 4% to £1,057,900). In setting this budget it is assumed that both employee and other costs remain unchanged (zero inflation), whilst income is expected to increase as a result of equipment purchased in 2010 boosting the numbers of visitors rather than through increased rates. Further reductions in the level of requisitions of 1.7% in both 2012/13 and 2013/14 are anticipated.

Governance and accountability

27. Corporate governance is concerned with structures and processes for decision-making, accountability, control and behaviours at the upper levels of the organisation. Based on work carried out by ourselves during the risk assessment stage of our audit, we acknowledge that the CMPA has in place a number of policies and procedures (such as the financial regulations, procedural standing orders and scheme of delegation). We also understand that a risk management strategy (including a risk register) is in place from a health and safety perspective and some significant risks are identified in the Park Strategy however, a corporate register is not yet in place although we have been informed that there have been discussions with the host authority's Risk Manager regarding this.

Refer Action Plan no. 1

Internal control

28. Internal audit plays a key role in the CMPA's governance arrangements, providing an independent appraisal service to management by reviewing and evaluating the effectiveness of the internal control system. Internal audit's programme of work is based on a five year cyclical approach based on an assessment of risk. In 2010/11 the only report issued was the annual report (which incorporates the annual assurance statement), however internal audit are also undertaking a review of the CMPA's financial regulations.
29. Internal audit also reviewed Renfrewshire Council's payroll, business continuity, financial management and cash and banking (which are all used by or have an impact for CMPA) and found these to be satisfactory. The annual assurance statement is largely based upon this work.
30. We have also reviewed Renfrewshire Council's main financial systems as part of our annual work and our findings are consistent with those of internal audit with only a small number of minor issues highlighted in a management letter issued to the Director of Finance and Corporate Services in June 2011. We have also undertaken an overview of internal audit (as reported in a management letter in January 2011) and found that the section has appropriate resources, documentation standards and reporting procedures to allow us to review and place reliance on aspects of their work during the year.

Relationship with host authority

31. Renfrewshire Council is the host authority for the joint committee, and as such provides various support services (such as finance, personnel, legal and administration). The host authority in turn charges the joint committee for the provision of these services. Last year we reported that while a formalised service level agreement (SLA) exists for some of these services (legal and administration) it does not for others such as finance. We understand a draft agreement is now in place but this still requires to be agreed by both CMPA and Renfrewshire Council.

Refer Action Plan no. 2

Performance

32. In 2009/10 we reported that the current Park Strategy had been extended to 2012 with a new Park Strategy to be presented to the joint committee in early 2012. From the review of committee papers we are aware of a subsequent Park Review which resulted from a decision taken at a meeting of the CMPA Chair, the 3 council leaders and their supporting staff. The output from this review will have an impact on the future Park Strategy. At the current time the review remains ongoing.

33. We are also aware of the continuing difficulties faced by the CMPA in servicing the Lunderston Bay facility, especially given the number of visitors on the weekend of the Tall Ships Race over the summer. As stated last year we are aware that the situation regarding the condition of this facility is outwith the direct influence of the CMPA and lies instead with Inverclyde Council and Ardgowan Estates. The CMPA should continue to work with partners to improve the condition of facilities offered.

Appendix A: Action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	27	<p>Corporate Risk Register</p> <p>The joint committee does not have a corporate risk register in place.</p> <p>Risk - The joint committee is not adequately prepared for all foreseeable risks.</p>	The development of a stand alone corporate risk register is under way.	Park Manager	31 March 2012
2	31	<p>Service Level Agreements (SLAs)</p> <p>There are a number of SLAs in place with the host authority, however these do not cover all areas of service provision.</p> <p>Risk - Payments to the host authority exceed the level of service provided.</p>	A draft SLA has been produced which pulls together and standardises all the various individual service SLAs which are already in place. This requires to be agreed between CMPA and Renfrewshire Council	Park Manager	31 December 2011