

Appendix C

Mugdock Country Park Joint Management Committee

Annual report on the 2013/14 audit



Prepared for Members of Mugdock Country Park Joint Management Committee and the
Controller of Audit

September 2014

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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Key Messages

2013/14

We have given an unqualified opinion that the financial statements of Mugdock Country Park Joint Management Committee (Joint Management Committee) for 2013/14 give a true and fair view of the state of the body's affairs and of its net expenditure for the year.

Overall the Joint Management Committee's arrangements for the prevention and detection of fraud were satisfactory during 2013/14. From our review of the key controls within the main financial systems of East Dunbartonshire Council, we concluded that the systems of internal control are operating adequately. Areas of weakness identified are unlikely to have a material impact on the financial statements of the Joint Management Committee.

Outlook

The Joint Management Committee's financial position going forward is becoming even more challenging than previous years with limited increases in funding coupled with increasing cost pressures. This represents a major challenge for the Joint Management Committee and expenditure during the year will require to be closely monitored to identify and address any emerging budget pressures or projected overspends at an early stage. The significant financial challenges will make maintaining or improving on the performance targets even more challenging. In addition, these financial pressures will also be felt by the constituent authorities of the Park. Rising expenditure levels have led to an increased contribution from both East Dunbartonshire and Stirling Councils. Should these contribution levels continue to rise, this presents a risk around the financial sustainability of the Park.

Introduction

1. This report is the summary of our findings arising from the 2013/14 audit of Mugdock Country Park Joint Management Committee. The purpose of the report is to set out concisely the scope, nature and extent of the audit. It summarises our opinions (i.e. on the financial statements) and conclusions on significant issues arising.
2. The report also reflects our overall responsibility to carry out an audit in accordance with the public sector audit model which is based on the Code of Audit Practice prepared by Audit Scotland (May 2011). This sets out the wider dimensions of the public sector audit which involves not only the audit of the financial statements but also consideration of areas such as financial performance and corporate governance. An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements prepared by management; however this does not relieve management of their responsibilities in this respect. This report has been prepared for the use of Mugdock Country Park Joint Management Committee and no responsibility to any third party is accepted.
3. Appendix A sets out the key audit risks identified at the planning stage and details how we addressed each risk in arriving at our opinion on the financial statements.
4. Appendix B is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that the Joint Management Committee understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
5. This report is also addressed to the Controller of Audit and will be published on our website after consideration by the Joint Management Committee.

Financial statements

Conduct and scope of the audit

6. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in the Annual Audit Plan presented to the Joint Management Committee on 17th June 2014 and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011.
7. As part of the requirement to provide full and fair disclosure of matters relating to our independence we can confirm that we have not undertaken non-audit related services. The 2013/14 agreed fee for the audit was disclosed in the Annual Audit Plan and as we did not require to carry out any additional work outwith our planned audit activity this fee remains unchanged.

Audit opinion & accounting issues

8. We have given an unqualified opinion that the financial statements of Mugdock Country Park Joint Management Committee for 2013/14 give a true and fair view of the state of the body's affairs and of its net expenditure for the year. The audit opinion was formally issued and signed on 25 September 2014.
9. We received the unaudited financial statements on 5th May 2014 in accordance with the agreed timetable. The working papers were of a high standard and the staff provided good support to the audit team and we completed our on-site fieldwork on 1st August 2014. The Joint Management Committee is required to follow the 2013/14 Code of Audit Practice and we can confirm that the financial statements have been properly prepared in accordance with these accounting requirements.

Significant findings and key judgements (ISA260)

10. During the course of the audit we identified a number of significant issues regarding the appropriateness of accounting policies or accounting estimates and judgements, the timing of transactions, the existence of material unusual transactions or the potential effect on the financial statements of any uncertainties.

Under recovery of rental income

11. During financial statements testing, it was identified that businesses renting premises at the Park were not billed for utility costs in 2013/14. As a result, an accrual for around £30,000 was required for the total amount. An estimate was used based on charges in the previous year. This indicates a failure around some elements of the Park's invoicing procedures and presents a risk that this income may not be received. Invoices were issued to tenants and the total value of these was seen to be around £13,000. As at 4/9/14, around £6,000 of this income had been received. Two invoices have been paid in full.

Resolution: Issuing of bills has resulted in the payment of half of the outstanding debt. Additionally the Park Manager has put in place new triggers for quarterly billing arrangements.

Significant increase in publicity expenditure

12. Through audit testing it was identified that expenditure on publicity has more than doubled from the prior year. In addition, an overspend of almost £15,000 has been noted against budget. This has not been offset by an increase in visitor numbers, as the 2013/14 accounts show that this number has decreased from 2012/13.

Resolution: Management have advised that a review of publicity expenditure has been undertaken and as of September 2014 expenditure in year is in line with the allocated budget. The Park Manager is also working with the team and colleagues in the Council to reduce the reliance on paper based advertising and move to online and social media based tools.

Overspend on maintenance costs

13. Maintenance costs disclosed for 2013/14 show an adverse year on year variance of £38,221. This is primarily explained by an unplanned one-off budget for slope remediation work required following adverse weather conditions and identified as necessary under health and safety requirements following site inspection. However, an adverse variance of £16,959 was recorded against budget for the year. This is a significant overspend considering the additional budget allocation in year.

Resolution: Management have advised that the bulk of the overspend related to one major unforeseen work requirement to address an identified health and safety risk. In year budgets will continue to be managed in line with allocated budgets and one off pressures highlighted to partners for consideration of capital contingency investment.

No approved staffing structure

14. It was noted during testing of governance arrangements that as yet, no formally approved staffing structure is in place for the Park. Significant staffing changes have also been experienced during the year following the retirement of key staff. The lack of a formalised structure presents a risk that important roles may not have been identified and filled.

Resolution: Management state that the review of the Park staffing structure will be completed as part of the Council's wider transformation programme and structure agreed between partners through this process.

Financial Pressures

15. The Joint Management Committee could face further financial pressures related to an increase in expenditure levels should these continue in future years. This could have an adverse impact on the Joint Management Committee's operations as contributions from constituent authorities have risen. There is a risk that further increases could lead the constituent authorities deciding that the Park is no longer sustainable in its current form.

Resolution: Management advise that in year monitoring of allocated budgets shows that the budget is within limits as at period 5. This will be monitored throughout the year. An exercise is underway to develop a new business plan for the park to look at existing and new areas of income generation and review expenditure levels in all areas. This new business plan will be informed by stakeholder engagement exercises and discussions between the two partner authorities.

Stock Count Arrangements

16. During testing of the 2013/14 financial statements, it was established that regular stock takes do not take place within the gift shop at Mugdock Country Park. Instead, only a year end stock take is carried out. This presents a risk that stock records do not accurately reflect physical stock held and that any variances are not identified timeously. Furthermore, an error was identified in the stock balance included within the draft accounts. As a result, an adjustment was required to reflect this in the final version.

Resolution: Management have stated that new stock counts will be implemented on a more regular basis in 2014-15 moving towards a standard quarterly stock control procedure.

Financial position

2013/14 Financial position

17. In 2013/14 the Joint Management Committee's net cost of service was higher than budget by £66,424. A further increase in staffing costs has made a significant contribution to this. Maintenance costs have once again exceeded budget and increases have also been experienced in publicity costs and electricity costs.
18. The Joint Management Committee's balance sheet as at 31st March 2014 reflected net assets of £0. However, this includes a temporary advance from East Dunbartonshire Council of £32,100. This reflects the net position of current assets and liabilities at the year end and represents a cash outflow position.
19. Net revenue expenditure to be met by constituent authorities in 2013/14 was £83,615 more than in the previous year.

Financial planning

20. Looking ahead, it is clear that the outlook for public spending for the period 2014/15 to 2015/16 remains very challenging. The Joint Committee will continue to face financial constraints which may increase the pressure on them to deliver their statutory duties and meet established performance targets. The Joint Management Committee will again need to be prepared to face the challenging financial environment ahead.

Corporate governance and systems of internal control

Overall governance arrangements

21. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements and overall we found the Joint Management Committee had sound governance arrangements in place which included a number of standing committees overseeing key aspects of governance.

Accounting and internal control systems

22. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
23. In accordance with the Joint Management Committee's Minute of Agreement, financial transactions are processed through East Dunbartonshire Council's financial systems. It is therefore the responsibility of the council's management to maintain adequate financial systems and associated internal controls.
24. Our review of these systems was conducted as part of the audit of East Dunbartonshire Council and supplemented by specific audit work on the Joint Management Committee's financial statements. No areas of significant concern were identified relating to the Joint Committee transactions tested.
25. The Statement on the System of Internal Financial Control (SSIFC) for the year 2013/14, signed by the Treasurer, outlines that the Joint Management Committee utilises the systems and controls of East Dunbartonshire Council. The SSIFC concludes that the Council has an adequate system of internal financial control with areas of weaknesses identified.
26. Areas for improvement were once again identified in the East Dunbartonshire Council Statement on the System of Internal Financial Control. We do not consider these to have a material impact on the fairness of the financial statements, and they do not affect our overall audit opinion.
27. Internal audit is an important element of the East Dunbartonshire Council governance structure. Our review established that the work of internal audit is of an adequate quality allowing us to place reliance on a number of areas including Council Tax billing and collection, Council Tax and NDR valuations, NDR billing and collection, Cash & Cash Equivalents, Treasury Management and Housing Rents controls. This not only avoided duplication of effort but also enabled us to focus on other key risk areas.

Prevention and detection of fraud and irregularity

28. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In our opinion the overall

arrangements for the prevention of fraud are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.

Standards of conduct and arrangements for the prevention and detection of corruption

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

Acknowledgements

30. We would like to express our thanks to the staff of Mugdock Country Park and East Dunbartonshire Council for their help and assistance during the audit of this year's financial statements which has enabled us to provide an audit report within the agreed timetable.

Appendix A: Key Audit Risks

Key Audit Risks and Associated Audit Work

| Audit Risks | Overview of the scope of audit work to address the risks |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>Expiration of Minute of Agreement</p> <p>The Joint Management Committee may face uncertainty should a further formal Minute of Agreement not be entered into.</p> | <p>Issue discussed with officers during Joint Management Committee meeting on 17th June 2014. Assurances received that updated Minute of Agreement would be developed and agreed in the short term.</p> |
| <p>Budget Setting</p> <p>Adverse variances in the Joint Management Committee's income budget as a result of reduced corporate events and sales income may lead to the requirement to secure additional funding from the constituent local authorities.</p> | <p>Issue discussed with officers during Joint Management Committee meeting on 17th June 2014 and during audit process. Budget variances highlighted but no action taken. Included within Annual Audit Report key risks.</p> |
| <p>Risk Register</p> <p>As a risk register has only recently been approved and put in place, specific issues relating to the Park's operation may not have been identified during the first three quarters of the year.</p> | <p>Issue discussed with officers during Joint Management Committee meeting on 17th June 2014. Assurances received that specific risk register is now in place and is updated on a regular basis.</p> |
| <p>Organisational Structure</p> <p>The loss of key staff may impact on the Joint Management Committee's ability to provide all required services including the preparation of the financial statements.</p> | <p>Issue monitored during the course of the audit. Discussions with officers provided assurances that key posts had been filled and financial statements would be prepared timeously.</p> |
| <p>Revised Operational Model</p> <p>Given the organisational structure changes identified, and the likely operational model revision, there is a risk that these may have an impact on the park's operational performance during implementation.</p> | <p>Issue discussed with officers during Joint Management Committee meeting on 17th June 2014. Assurances received that operational model would be finalised and approved staff structure would be put in place. As yet, this is not complete. Issue included.</p> |

Appendix B: Action Plan

Key Risk Areas and Planned Management Action

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|-----------------------------------------------------------|
| 1 | 11 | <p>Under recovery of rental income</p> <p>A £13,000 accrual was required for income not yet billed. This related to rental income. There is a risk that the Joint Management Committee may not receive all of this income due to the long delay in the billing of tenants.</p> | <p>Issuing of bills has resulted in the payment of half of the outstanding debt.</p> <p>Additionally the Park Manager has put in place new triggers for quarterly billing arrangements.</p> | Mary Coulshed, Park Manager | <p>End Sept 2014</p> <p>Quarterly ongoing</p> |
| 2 | 12 | <p>Significant increase in publicity expenditure</p> <p>Expenditure on publicity has more than doubled year on year. In addition, an overspend of almost £15,000 has been noted against budget. This has not been offset by an increase in visitor numbers, as the 2013/14 accounts show that this number has decreased from 2012/13.</p> | <p>Review of publicity expenditure undertaken and as of Sept 2014 expenditure in year is in line with the allocated budget.</p> <p>The Park Manager is also working with the team and colleagues in the Council to reduce the reliance on paper based advertising and move to online and social media based tools.</p> | Mary Coulshed, Park Manager | <p>End Sept 2014 and quarterly ongoing</p> <p>Ongoing</p> |

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|----------------|
| 3 | 13 | <p>Overspend on maintenance costs</p> <p>Maintenance costs disclosed for 2013/14 show an adverse year on year variance of £38,221. An adverse variance of £16,959 was also recorded against budget for the year. This is a significant overspend.</p> | <p>The bulk of the overspend related to one major unforeseen work requirement to address an identified health and safety risk.</p> <p>In year budgets will continue to be managed in line with allocated budgets and one off pressures highlighted to partners for consideration of capital contingency investment.</p> | Mary Coulshed, Park Manager | Ongoing |
| 4 | 14 | <p>No approved staffing structure</p> <p>There is an ongoing review of the staffing structure and until completed there remains a level of risk to the operation of the park through uncertainty over all functions being delivered and managed.</p> | <p>The review of the Park staffing structure will be completed as part of the Council's wider transformation programme and structure agreed between partners through this process.</p> | Mary Coulshed, Park Manager | End March 2015 |

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|------------------------------------------------------------------|
| 5 | 15 | <p>Financial Pressures</p> <p>As a result of financial pressures, contributions from constituent authorities have risen. There is a risk that further increases could lead the constituent authorities deciding that the Park is no longer sustainable.</p> | <p>In year monitoring of allocated budgets show that the budget is within limits as at period 5. This will be managed throughout the year.</p> <p>An exercise is underway to develop a new business plan for the park to look at existing and new areas of income generation and review expenditure levels in all areas. This new business plan for the park informed by stakeholder engagement exercises and discussions between the two partner authorities.</p> | Mary Coulshed, Park Manager | <p>Ongoing through period account reviews</p> <p>End 2014-15</p> |
| 6 | 16 | <p>Stock Count Arrangements</p> <p>No regular stock takes take place within the gift shop at Mugdock Country Park. Instead, only a year end stock take is carried out. This presents a risk that stock records do not accurately</p> | <p>New stock counts will be implemented on a more regular basis in 2014-15 moving towards a standard quarterly stock control procedure.</p> | Mary Coulshed, Park Manager | Ongoing and quarterly |

| Action Point | Refer Para No | Risk Identified | Planned Management Action | Responsible Officer | Target Date |
|--------------|---------------|----------------------------------------------------------------------------------|---------------------------|---------------------|-------------|
| | | reflect physical stock held and that any variances are not identified timeously. | | | |