



## **West of Scotland Archaeology Service**

Annual Audit Report to members  
and the Controller of Audit

September 2015

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This report has been prepared for the use of the West of Scotland Archaeology Service and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the West of Scotland Archaeology Service Joint Committee. The information in this report may be used for the Accounts Commission’s annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

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# Key Messages

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<b>Audit of financial statements</b>	<ul style="list-style-type: none"><li>• Unqualified independent auditor's report on the 2014/15 financial statements.</li><li>• Working papers were of a good standard and officers provided good support which enabled the audit team to complete on-site fieldwork by the planned target date.</li><li>• All presentation and disclosure issues identified in unaudited accounts were corrected by management in the audited financial statements.</li></ul>
<b>Financial management and sustainability</b>	<ul style="list-style-type: none"><li>• The West of Scotland Archaeology Service has incurred a deficit of £19,078 in 2014/15. The use of reserves was however planned to meet the costs of relocating the office base and digitising the historical records in the year. The medium term financial position is however based on the continued use of reserves over the next three years. This will not be sustainable and a policy on reserves is therefore required to ensure the effective management and planning of finances over the longer term.</li></ul>
<b>Governance and transparency</b>	<ul style="list-style-type: none"><li>• The West of Scotland Archaeology Service had sound governance arrangements in place during 2014/15.</li></ul>

# Introduction

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1. This is a report of our findings from the 2014/15 audit of the West of Scotland Archaeology Service (the Service).
2. The management of the Service is responsible for:
  - preparing financial statements which give a true and fair view
  - implementing appropriate internal control systems
  - putting in place proper arrangements for the conduct of its affairs
  - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of the Service, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of 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; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures. Consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
6. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

# Audit of the 2014/15 financial statements

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## Audit opinions

### Audit opinion

- We have completed our audit and issued an unqualified independent auditor's report.

### Going concern

- The financial statements have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the Service's ability to continue as a going concern.

### Other information

- We review and report on other information published with the financial statements, including the management commentary and annual governance statement. We have nothing to report in respect of these statements.

## Submission of financial statements for audit

7. We received the unaudited financial statements in accordance with the agreed timetable. The working papers were of a good standard and good support was given to the audit team by staff which assisted the delivery of the audit to the deadline.

## Overview of the scope of the audit of the financial statements

8. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan, dated February 2015.
9. 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.
10. The concept of audit risk is of central importance to our audit approach and we set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. Appendix 1 sets out the audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.
11. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give

reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

## Materiality

12. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. In addition, a misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example the failure to achieve a statutory requirement, or an item contrary to law).
13. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit procedures. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
14. We summarised our approach to materiality in our plan and updated our materiality calculations based on the unaudited financial statements. As a result we set materiality for 2014/15 at £1,800. We report all misstatements greater than £100. Performance materiality was calculated at £1,625, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality.

## Evaluation of misstatements

15. A misstatement was identified by the Principal Finance Officer during the audit in respect of the rent figure shown in the unaudited accounts. The initial figure used as the rent accrual was based on a full year rent figure of £10,700. This did not reflect the agreement between the Service and City Property that the Service would only be charged rent of £1 between 1 April 2015 and when they vacated the premises at 31 October 2015. The appropriate charge for their new location at Exchange House for 2014/15 is £4,458. The financial statements have been changed to reflect the correct position.

## Significant findings from the audit

16. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit:
- The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and disclosures.
  - Significant difficulties encountered during the audit.
  - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
  - Written representations requested by the auditor.

- Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
17. During the course of the audit we identified the following significant issue that, in our view, requires to be communicated to you:

## Significant findings from the audit

Issue	Resolution
<p><b>The Local Authority Accounts (Scotland) Regulations 2014</b></p> <ul style="list-style-type: none"><li>The Service did not meet to consider the unaudited accounts by 31 August 2015.</li></ul>	<ul style="list-style-type: none"><li>For 2015/16, other options are being explored in order that the Service consider the unaudited accounts by 31 August 2016.</li></ul>



## Future accounting and auditing developments

### *Revisions to the Code of Practice*

18. The financial statements of the Service are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) which interprets and adapts International Financial Reporting Standards (IFRS) to the local authority context. There are no significant changes to accounting requirements introduced by the 2015/16 Code which are likely to impact on the financial statements of the Service.

# Financial management and sustainability

## 2014/15 financial position

19. In 2014/15 the West of Scotland Archaeology Service incurred a deficit of £19,078 on the provision of services compared to a surplus of £800 in 2013/14. Costs of £14,420 were incurred during the year on digitising the Service's paper based records and it had been agreed that this expenditure, along with relocation costs, would be met from reserves.
20. The Service Financial Plan for the three years covering the period 2015/16 through to 2017/18 shows the continued use of reserves at a rate of approximately £12,500 per annum with the budgeted reserve balance being £52,578 at the end of 2017/18. Reliance on reserves will however be unsustainable over the longer-term.

## Financial management

21. As auditors we need to consider whether bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
  - the officer responsible for finance has sufficient status to be able to deliver good financial management
  - standing financial instructions and standing orders are comprehensive, current and promoted within the body
  - reports monitoring performance against budgets are accurate and provided regularly to budget holders
  - monitoring reports do not just contain financial data but are linked to information about performance
  - members provide a good level of challenge and question budget holders on significant variances.
22. The main financial management arrangements for the Service are set down in the Business Plan 2014-17 and Service Financial Programme 2015-18. Based on our accumulated knowledge and our review of relevant papers we conclude that the Service has made appropriate financial management arrangements though the agreement of a Reserves Policy, which is noted as a requirement in the Business Plan, is imperative given the Service's future plans to place greater reliance on reserves.

# Governance and transparency

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## Corporate governance

23. Members and management of the Service are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements.
24. The West of Scotland Archaeology comprises of Members from each of the ten member authorities and is responsible for overseeing the work of the body and managing performance and achievement of the Business Plan. Their work also encompasses monitoring and approving the systems of governance within the Service.
25. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' governance arrangements and overall we found the West of Scotland Archaeology Service to have sound governance arrangements in place.

## Accounting and Internal control systems

26. 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.
27. In accordance with the minute of agreement the Service's financial transactions are processed through Glasgow City Council's financial systems. Our review of these systems was conducted as part of the audit of the council, supplemented by specific audit work on the Service's financial statements.
28. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

## **Arrangements for the prevention and detection of fraud**

29. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularity. Auditors review and report on these arrangements.
30. The arrangements established for the prevention of fraud and irregularities have been considered as part of the audit of Glasgow City Council as the host authority. There are no matters that we wish to highlight, although it should be noted that no system can eliminate the risk of fraud entirely.

## **Arrangements for maintaining standards of conduct and the prevention and detection of corruption**

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

# Appendix 1 – Audit risks

The table below sets out the audit risks identified in our 2014/15 Annual Audit Plan, how we addressed each risk and our judgement in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusion
<p><b>Requirements of the new accounting regulations:</b>                      The Local Authority Accounts (Scotland) Regulations 2014 have introduced some changes to the contents of the financial statements, including the inclusion for the first time in the annual accounts a Management Commentary. The Code encourages authorities to take into account the requirements of the Government Financial Reporting Manual for management commentaries.</p> <p>The new regulations also require the authority to meet by 30 September to approve the audited annual accounts for signature.</p> <p>There is a risk that the 2014/15 financial statements do not fully comply with the new accounting regulations.</p>	<ul style="list-style-type: none"> <li>• We liaised with finance officers during the preparation of the financial statements to ensure compliance with the requirements of the 2014 Regulations.</li> <li>• We have carried out an audit of the 2014/5 financial statements and assessed compliance against the requirements of the 2014 Regulations.</li> </ul>	<p>We have raised an issue concerning compliance with the Local Authority Accounts (Scotland) Regulations 2014.</p> <p><b>Refer paragraph 16</b></p>

Appendix 1 – Audit risks

Audit Risk	Assurance procedure	Results and conclusion
<p><b>Management override of controls:</b>                      As is the case in all entities, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.                      There is a risk of misstated accounting records.</p>	<ul style="list-style-type: none"> <li>• We conducted substantive audit work.</li> <li>• We placed reliance on the range of measures in place to prevent and detect fraud, including Standing Financial Instructions, Standing Orders and a Code of Conduct for Staff which incorporates both whistleblowing and fraud policies.</li> <li>• These are in place at Glasgow City Council and, as Service Staff are employees of the Council and the Service use Glasgow City Council Systems, compliance with these measures is equally applicable to West of Scotland Archaeology Services.</li> </ul>	<p>We did not identify any instances of management manipulating accounting records or overriding controls.</p>

## Appendix 2 – Summary of local audit reports 2014/15

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