

Clyde Valley Learning and Development Joint Committee

Proposed 2021/22 Annual Audit Report



 AUDIT SCOTLAND

Prepared by Audit Scotland
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Key messages

2021/22 annual accounts

- 1** An unqualified independent auditor's report has been issued for the 2021/22 annual accounts.

Financial sustainability and governance statement

- 2** Through the continued support from member authorities, the Joint Committee's financial position is sustainable for the foreseeable future.
- 3** Governance arrangements were effective in 2021/22. The Joint Committee's annual governance statement is consistent with the financial statements and complies with applicable guidance.

Introduction

1. The scope of our audit was set out in our [2021/22 annual audit plan](#) presented to the February 2022 meeting of the Joint Committee.
2. This report sets out our findings from:
 - the audit of the annual accounts
 - our consideration of the Joint Committee's financial sustainability and governance statement.

Responsibilities and reporting

3. The management of the Joint Committee, has responsibility for:
 - preparing financial statements which give a true and fair view.
 - putting in place proper arrangements for the conduct of its affairs.
 - maintaining proper accounting records and appropriate governance arrangements.
4. Our responsibilities, as independent auditor appointed by the Accounts Commission, are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice 2016](#) and supplementary guidance and International Standards on Auditing in the UK. We undertake our audit in accordance with International Standards on Auditing, and the auditing profession's ethical guidance.
5. At the conclusion of our audit, we provide an independent auditor's report for inclusion in the annual accounts.
6. Audit Scotland's Code of Audit Practice 2016 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 annual audit work can focus on the financial sustainability of the body and the disclosures in the governance statement. In our 2021/22 annual audit plan we conveyed our intention to apply the small body provisions to the 2021/22 audit of the Joint Committee's annual accounts.
7. Best Value is about ensuring that there is good governance and effective management of resources, with a focus on improvement, to deliver the best possible outcomes for citizens. As we have applied the Code of Audit Practice small body provisions to the audit of the Joint Committee our wider scope responsibilities do not fully apply. Our Best Value work is limited to our audit work on financial sustainability and the governance statement.

8. This report raises matters from our audit. 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.

Adding value through the audit

9. In addition to our primary responsibility of reporting on the annual accounts we seek to add value to the Joint Committee by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we aim to help the organisation promote improved standards of governance, better management and decision making, and more effective use of resources.

Appointment of external auditors 2022/23 to 2026/27

10. In March 2022, Audit Scotland wrote to the Joint Committee noting that its external auditor would remain Audit Scotland for the period 2022/23 to 2026/27. We will work closely with the new auditor to ensure a well-managed transition.

New Code of Audit Practice

11. A new [Code of Audit Practice](#) applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the Code issued in May 2016.

12. The Code outlines the objectives and principles to be followed by all auditors. The audit of financial statements is covered by auditing standards, so the Code focuses more on the wider dimension objectives and responsibilities of public sector auditors. It is a condition of their appointment by the Accounts Commission or Auditor General for Scotland that they follow it.

Auditor Independence

13. Auditors appointed by the Accounts Commission or Auditor General for Scotland must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the annual accounts auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

14. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2021/22 audit fee of £2,020 as set out in our annual audit plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

15. This report is addressed to both members of the Joint Committee and the Controller of Audit and will be published on Audit Scotland's website <http://www.audit-scotland.gov.uk> in due course.

16. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

1. Audit of 2021/22 annual accounts

Key messages

An unqualified independent auditor's report has been issued for the 2021/22 annual accounts.

Our audit opinions on the annual accounts are unmodified

17. The annual accounts for the year ended 31 March 2022 were approved for issue by the Joint Committee following its meeting on 3 October 2022.

18. We reported in the independent auditor's report that:

- the financial statements give a true and fair view and were properly prepared in accordance with relevant legislation and the Code of Practice on Local Authority Accounting in the UK.
- the management commentary and governance statement were consistent with the financial statements and properly prepared in accordance with relevant legislation.

19. We concluded that there were no matters upon which we are required to report, by exception, to the Accounts Commission.

The unaudited annual accounts were submitted for audit in line with the agreed timetable

20. We received the unaudited annual accounts on 20 June 2022 in line with the agreed audit timetable. The annual accounts submitted for audit were of a satisfactory standard as were supporting working papers. Finance staff provided good support to the audit team which helped ensure the final accounts audit process ran smoothly.

Our audit identified and addressed the risk of material misstatement reported in our 2021/22 annual audit plan

21. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit, we identified one significant risk of material misstatement which could impact on the annual accounts. [Exhibit 1](#) sets this risk out together with the work we undertook to address it and our conclusions from this work.

Exhibit 1

Significant risks of material misstatement reported in the 2021/22 annual audit plan

Description of Risk	Audit response to risk	Results and conclusion
<p>1. Risk of management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.</p> <p>Test journals at the year-end and post-closing entries and focus on significant risk areas.</p> <p>We will assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year.</p> <p>Substantive testing of income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.</p>	<p>Results: Journal adjustments were tested, and no indications of management override of controls were found.</p> <p>We tested accruals and confirmed that expenditure was properly accounted for in the financial year.</p> <p>We reviewed transactions during the year. No significant transactions outside the normal course of business were identified.</p> <p>Judgements and estimations applied were tested to confirm they were appropriate and reasonable.</p> <p>Conclusion: No instances of management override of controls were identified.</p>

Source: Audit Scotland

Our audit testing reflected the calculated materiality levels

22. Materiality can be defined as the maximum amount by which auditors believe the annual accounts could be misstated and still not be expected to affect the perceptions and decisions of users of the annual accounts. The assessment of what is material is a matter of professional judgement. A misstatement or omission, which would not normally be regarded as material by value, may be important for other reasons (for example, an item contrary to law).

23. Our initial assessment of materiality for the annual accounts is undertaken during the planning phase of the audit. On receipt of the unaudited annual accounts, and following completion of audit testing, we reviewed our original materiality calculations and concluded that they remained appropriate. Our materiality levels are set out at [exhibit 2](#).

Exhibit 2

Materiality levels

Materiality level	Amount
Overall materiality: This is the figure we use in assessing the overall impact of potential adjustments on the financial statements. It has been set at 2% of gross expenditure for the year ended 31 March 2022.	£2,400
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 calculated performance materiality at 75% of planning materiality.	£1,800
Reporting threshold: We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been set at £120.	£120

Source: Audit Scotland

No misstatements were identified

24. There were no material adjustments to the unaudited annual accounts arising from our audit. In addition, we have no unadjusted misstatements to report.

We have no significant findings to report on the annual accounts

25. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to “those charged with governance”.

26. There are no significant findings to report.

27. The qualitative aspects of the Joint Committee’s accounting practices, accounting policies, accounting estimates and accounts disclosures are satisfactory and appropriate to the Joint Committee.

28. In accordance with normal audit practice, a number of presentational and disclosure amendments were discussed and agreed with management.

Follow up of prior year recommendations

29. There were no actions raised in our [2020/21 annual audit report](#).

2. Financial sustainability and governance statement

Key messages

Through the continued support from member authorities, the Joint Committee's financial position is sustainable for the foreseeable future.

Governance arrangements were effective in 2021/22. The Joint Committee's annual governance statement is consistent with the financial statements and complies with applicable guidance.

The Joint Committee reported a deficit on the provision of its services of £14,000 in 2021/22. This was covered by its accumulated reserves

30. The Joint Committee secured contributions totalling £84,000 from the member authorities towards its running costs for 2021/22. As the administering authority, South Lanarkshire Council is responsible for managing the Joint Committee's running costs within the allocated budget.

31. Income and expenditure for the year are reported as £108,000 and £122,000 respectively, resulting in a £14,000 deficit on the provision of services. This deficit position is arrived at through an in-year underspend of £11,000 on the original budget together with additional in year costs being incurred. At the Joint Committee meeting in September 2021, members agreed to extend the contract for the Learning Management System (LMS) contract. This had a cost of £25,000.

32. The £14,000 deficit has been offset against the Joint Committee's accumulated reserve balance. As at 31 March 2022 the Joint Committee's general fund reserve is £16,000.

Through the continued support from member authorities, the Joint Committee's financial position is sustainable for the foreseeable future

33. The Joint Committee's sustainability is dependent on participating councils' continued support. The Joint Committee has so far secured contributions totalling £78,000 from 15 member authorities, six being full members, towards the running costs of the project for 2022/23. This funding exceeds the Joint Committee's agreed minimum level of funding required to maintain the viability of the Project (being a commitment from at least five full members councils and contributions of £61,000 in total from all members).

34. At the Joint Committee meeting in June 2022, the 2022/23 revenue budget monitoring report notes that in addition to the member contributions of £78,000, there is budgeted training expenditure of £25,000, with this recharged to councils. This gives a total expenditure and income budget of £103,000 for 2022/23. As at May 2022, the budget update forecasts a breakeven position for 2022/23.

35. There is evidence that participating councils will continue to support the operations and existence of the Joint Committee for the foreseeable future.

Governance arrangements were effective in 2021/22. The Joint Committee's annual governance statement is consistent with the financial statements and complies with applicable guidance

36. In its annual governance statement, the Joint Committee has made appropriate disclosure of the impact Covid-19 has had on its governance arrangements. The statement provides assurance that there have been no changes to the governance arrangements in place except for the required changes made in response to the pandemic. All Joint Committee meetings were held virtually in 2021/22, with the use of Microsoft Teams allowing for greater member participation. This virtual medium is now the preferred method for Joint Committee meetings. The increased participation at meetings helps retain effective strategic oversight and governance of the Project.

37. The governance statement discloses the Joint Committee's compliance with the Financial Management Code (FM Code) from CIPFA. The FM Code applies from 2021/22 and is designed to support good practice in financial management, with compliance against the principles helping local authorities demonstrate financial sustainability. The Joint Committee undertook a self-assessment against the Code during the shadow implementation year, 2020/21. The only outstanding action noted last year was in relation to a statement regarding the Joint Committee's adequacy of reserves to be included in its budget strategy paper.

38. In February 2022, the 2022/2023 budget paper was presented to the Joint Committee. Whilst the paper did not include a formal statement on reserves, it did assess the adequacy of the funding for 2022/23. The Project fund available is very much dependent on the final overall income from the membership. The funding secured so far in 2022/23 (£78,000) exceeds the minimum level required (£61,000) for the Project to continue. Members noted that the current committed funding exceeded the minimum level. They agreed that any unspent element of this funding would be transferred to reserves for use in future years. This reserve balance will be reviewed annually as part of the membership and funding contributions review.

39. The information in the annual governance statement is consistent with the financial statements and our knowledge of the Joint Committee's operations and was prepared in accordance with the CIPFA/SOLACE guidance: Delivering Good Governance in Local Government: Framework (2016).

High-level systems of internal control operated effectively during 2021/22

40. South Lanarkshire Council, as host authority, provides support in some key areas of business. These include finance, legal and information technology, with the council's systems used to produce the Joint Committee's annual accounts. The council's internal audit function did not carry out specific audit work on the Joint Committee in 2021/22. However, the sharing of systems means that the "reasonable" level of assurance provided to the council, by the Internal Audit Manager, provides a degree of assurance to the Joint Committee given the level of shared systems and services.

41. The appointed external auditor of South Lanarkshire Council considered whether the council's key accounting and internal financial controls were adequate to prevent material misstatements in the annual accounts. These are the same systems used to produce the Joint Committee's annual accounts.

42. We have reviewed the council's external auditor's findings. They concluded that the key controls within its main financial systems were operating satisfactorily. As such, we are satisfied there is no significant risk to the Joint Committee's annual accounts.

The Joint Committee's 2021/22 management commentary provides a reasonable picture of its financial performance and operational activity for the year

43. The management commentary is intended to expand upon and provide clarity and context to the information in the financial statements. Guidance emphasises that each body has scope for innovation and variation on how it "tells its story." The general principle is that it should provide "a fair, balanced and understandable" analysis of a body's performance to meet the needs of members and other stakeholders, including members of the public.

44. We concluded that the 2021/22 management commentary is consistent with our knowledge and experience of the organisation and presents a reasonable picture of the Joint Committee's financial performance and operational activity for the year.

National performance reports

45. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. National performance reports, published in 2021/22, which may be of interest to members, can be found on Audit Scotland's [website](#).

Clyde Valley Learning and Development Joint Committee

Annual Audit Report 2021/22

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