

Final report to the Authority and the Controller of Audit on the 2015/16 audit



9 September 2016

the
Distinctive
audit

Contents

Our final report

3	Partner introduction
8	Scope, nature and extent of audit
10	Significant risks and other matters
14	Public sector audit dimensions
19	Your annual report
21	Purpose of our report and responsibilities statement

Appendices

24	Audit adjustments
25	Fraud responsibilities and representations
26	Independence and fees
27	Events and publications

An overview of our audit plan:

- Materiality: £6,100 (2014/15: £5,000).
- Performance Materiality: £5,490 (2014/15: £4,500).
- Threshold for reporting misstatements: £120 (2014/15: £100).
- Significant risks over revenue recognition and management override of controls.
- Other audit matters: future funding uncertainty and the defined benefit pension scheme.
- **Fully substantive audit** - We have not placed any reliance on internal controls and our audit work was fully substantive.



Partner introduction

Partner introduction

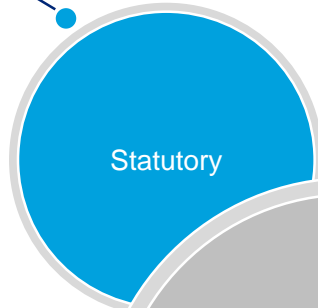
Overview of responsibilities

I have pleasure in presenting our final report to the Board for the 2015/16 audit.

We have early adopted the requirements of the new Code of Audit Practice which comes into force for the 2016/17 audits. A reminder of the requirements is set out below.

Financial Statements

Provide an opinion on the financial statements and the regularity of transactions.



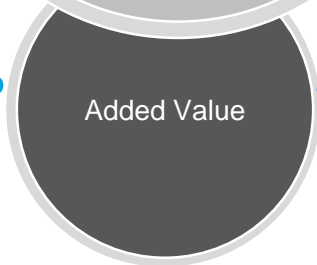
Annual Reports

Review and report on the other information such as annual governance statement, management commentaries, remuneration reports.



Public reporting

Audit plans, the principal audit outputs arising from audit plans and any other outputs on matters of public interest will be published on Audit Scotland's website.



Public Sector audit dimensions

Wider scope reporting covering financial sustainability, financial management, governance & transparency and value for money.

Audit quality is our number one priority. When planning our audit we set the following audit quality objectives:

A robust challenge of the key judgements taken in the preparation of the financial statements.

A strong understanding of your internal control environment.

A well planned and delivered audit that raises findings early with those charged with governance.

Partner introduction (continued)

Financial statement audit and annual report

Financial statements audit

Conclusions from our testing

- The key judgements and areas of audit focus in the audit process related to:
 - Revenue recognition
 - Management override of controls
- A summary of our work on the significant financial statements risks is provided in the dashboard on page 6.
- We have also considered the following other matters during our audit:
 - Future Funding Uncertainty
 - Defined Benefit Pension Scheme
- We have identified no misstatements during the current year audit.
- Based on the current status of our audit work, we anticipate issuing an unmodified audit opinion.

Status of the audit

- The audit is substantially complete subject to the completion of the following matters:
 - Receipt of support for the legal expenses accrual;
 - Response to legal letter;
 - Finalisation of quality control procedures;
 - Receipt of signed management representation letter; and
 - Our review of events since 31 March 2016.

Annual report

Overall conclusion

- We have read the Management Commentary in full in order to assess whether it is in line with our understanding of the Authority and complies with the 2014 Regulations. No exceptions noted.
- The format and content of the Governance Statement is consistent with the requirements of the Code and concludes that reasonable assurance can be placed on the adequacy and effectiveness of the Authority's Internal Control System in the year to 31 March 2016. No areas have been highlighted as requiring improvement, which is consistent with the findings of our audit.
- We are satisfied that the remuneration report has been prepared in accordance with the regulations and is consistent with the findings of our audit.

Partner introduction (continued)

Significant financial statements risk dashboard

Fraud risk	Controls approach and findings	Consistency of judgements with Deloitte expectations	Comment
Revenue recognition – Grants and Requisitions			
✓	Evaluate design / implementation of key controls. No controls reliance. No significant observations.	●	We have confirmed that the contributions agreed as part of the budget have been reconciled to the actual amounts received and accounted for in the financial statements.
Management override of controls			
✓	Evaluate design / implementation of key controls. No controls reliance. No significant observations.	●	<p>We have noted no issues with journal entries and other adjustments made in the preparation of the financial statements.</p> <p>Our review of accounting estimates for bias that could result in material misstatement due to fraud identified no issues.</p>

Overly prudent, likely to lead to future credit      Overly optimistic, likely to lead to future debit.

Partner introduction (continued)

Public sector audit dimensions

We have commented below on the public sector audit dimensions with regard to SDPA:

Financial management The final outturn for 2015/16 was a deficit of £1k against an expenditure budget of £124k.

We have confirmed from our review of minutes that SDPA closely monitors its budget and actual expenditure through regular reporting to the Board.

Financial sustainability Financial sustainability continues to be one of the most significant challenges and risks for SDPA and the wider public sector.

However, the Treasurer has determined that the level of uncertainty is not yet sufficient to provide an indication that the activities of the Authority might be affected by the need to reduce level of service provision.

We have confirmed that a budget has been agreed for 2016/17 with funding levels in line with 2015/16, and therefore concur with the Treasurer's statement.

Governance and transparency The SDPA Board meets on a regular basis to assess performance of the Authority against budget and to determine any risks affecting the entity, with detailed minutes drawn up and made publicly available for each.

Value for money A plan is set by the Director each year that supports the delivery of the strategic priorities of the Authority which identifies key projects and actions. Progress against this is monitored.

Jim Boyle
Audit Partner

Scope, nature and extent of audit

Scope, nature and extent of audit

Our overall responsibility as external auditor of SDPA is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.

The special accountabilities that attach to the conduct of public business, and the use of public money, means that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements and associated documents such as governance statements, but providing a view also, where appropriate, on matters such as regularity (or legality), propriety, performance and use of resources in accordance with the principles of Best Value and 'value for money'.

Our core audit work as defined by Audit Scotland comprises:

- Providing the Independent Auditor's Report on the financial statements;
- Providing the annual report on the audit to the Board and the Controller of Audit;
- Communicating audit plans to those charged with governance; and
- Identifying significant matters arising from the audit, alert Audit Scotland accordingly and supporting Audit Scotland in producing statutory reports as required.

In accordance with paragraph 5 of the Code, due to the small size and nature of the Board, no formal audit plan was reported to those charged with governance. Our planning work was completed and fully discussed with key officers from the Board.

The Board is responsible for preparing annual accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the annual accounts or risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Significant risks and other matters

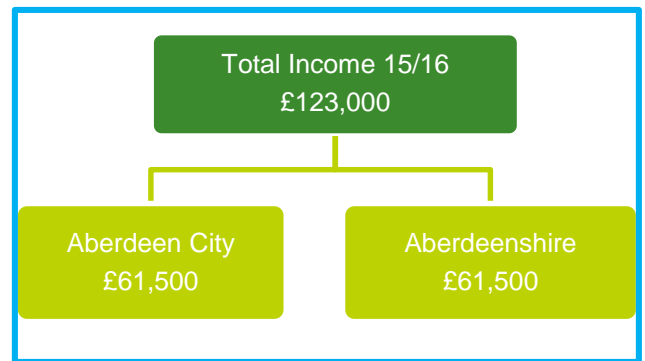
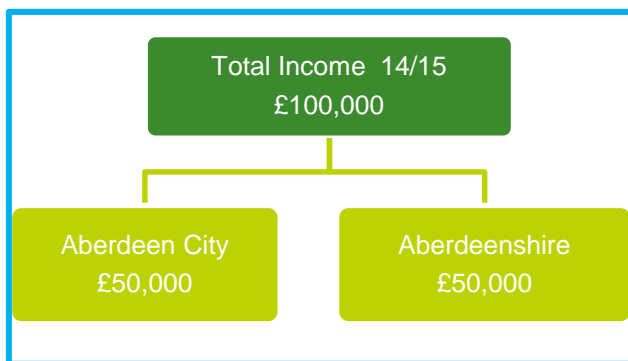
Significant risk

Revenue Recognition

Nature of Risk

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

For the Authority we have considered this risk to be around the completeness of requisitions from the constituent authorities given the significance of these to the organisation.



Key judgements

As the requisitions from the constituent authorities are agreed as part of the budget process at the start of the year and monitored against expenditure requirements during the year, there is very little judgement by management in recognising the income in the accounts.

Deloitte response

We have reviewed the treatment of income in the year to consider whether it is line with IFRS guidance and the Code. We have obtained a copy of the 2015/16 budget approved by the Authority detailing the requisitions due which have been agreed to the amount recognised by the Authority. We have also agreed the amounts received through to the bank account.

Deloitte view

- No issues noted from our review of the treatment of income in the year, which has been accounted for in line with the Code.
- We have agreed all income received to bank statements and/ or journal entries.

Significant risk

Management override of controls

Risk Identified

International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor.

This recognises that management within Aberdeenshire Council acting on behalf of the SDPA is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. The risk of management override of control is present in all entities.

This risk cannot be pinpointed to an account balance or potential error and therefore specific procedures to respond to the risk of management override of controls should be designed and performed.

Audit approach

Our audit work is designed to test for instances of management override of controls.

Deloitte response

We have considered the risk factors over the manipulation of accounting entries made in preparation of the financial statements, and note that:

- the Board's results were monitored closely throughout the period and;
- senior management's remuneration is not tied to particular financial results.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Journals

We have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.

We have used data analytics to test a sample of journals, based upon identification of items of potential audit interest. Our analysis covered all journals posted in the year. No issues noted from our testing.

Accounting estimates

In addition to our work on key accounting estimates discussed above, our retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements completed with no issues noted.

Significant transactions

We did not identify any significant transactions outside the normal course of business or transactions where the business rationale was not clear.

Deloitte view

We have not identified any significant bias in the key judgements made by management.

We have noted that there have been no significant one-off or unusual transactions in the period.

Other matters

Critical accounting judgements and key sources of estimation

In the course of our audit of the financial statements, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. Our comments on the quality and acceptability of the accounting policies and estimates are discussed below.

We have assessed the disclosures based upon our review of the accounts and understanding of the organisation and the specific risks we identified as part of our planning process. We have not identified any other critical accounting judgements or key sources of estimation uncertainty that require to be disclosed. We have performed work as follows:

Future Funding Uncertainty

Management has made certain judgements about transactions involving uncertainty about future events. Disclosure has been made that there is a degree of uncertainty about future levels of funding from local government and hence funding for Aberdeen City and Shire SDPA. However, the Treasurer has determined that the level of uncertainty is not yet sufficient to provide an indication that the activities of the Authority might be affected by the need to reduce level of service provision.

We have confirmed that a budget has been agreed for 2016/17 with funding levels in line with 2015/16, and indicative budgets are in place for 2017/18 confirming funding beyond April 2017, and therefore concur with the Treasurer's statement.

Defined Benefit Pension Scheme

Aberdeen City and Shire SDPA participates in the North East Scotland Pension Fund, which is a multi-employer defined benefit scheme, where the share of the assets and liabilities applicable to each employer is not identified. This is therefore accounted for on a defined contribution basis as permitted by IAS 19.

We have reviewed the disclosure within the accounts against the Code requirements. The Code highlights that minor non-principal authorities (of which Aberdeen City and Shire SDPA in one) who participate in Local Government Pension Schemes meet the criteria to account for the scheme as if it were a defined contribution scheme. This has been appropriately disclosed in Note 15 of the accounts.

Public sector audit dimensions

Financial management

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Revenue expenditure

Aberdeen City and Shire SDPA budgeted a breakeven position for the year to 31 March 2016, with budgeted income and expenditure of £171,000. The final outcome was a net underspend of £48,000, comprising £124,000 expenditure and £123,000 income both coming in lower than budget.

The table below illustrates how the Board's performance compares to plan and prior year:

	2014/15 Actual £'000	2015/16 Budget £'000	2015/16 Actual £'000	2015/16 Variance £'000
Partner Council Requisitions	100	138	123	(15)
Other Income	-	33	-	(33)
Total Income	100	171	123	(48)
Staff Costs	66	111	69	(42)
Other Costs	34	60	55	(5)
Total Operating Expenses	100	171	124	(47)

Comments on the key variances in 2015/16 are as follows:

- There was very little expenditure other than staff costs in the year due to recruitment difficulties and the reduced need to employ third party contractors for discrete elements of work.
- The Board has accrued £45,000 in respect of legal costs in relation to an ongoing case in relation to the Strategic Transport Fund, which has been recognised within the 2015/16 accounts;
- As a result of the reduced expenditure, the surplus income was returned to the constituent Councils.

Deloitte conclusion

We are satisfied that sound budgetary processes are in place, with actual expenditure against budget being monitored by the Board throughout the year.

Financial sustainability

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.

Financial Outlook

A 2016/17 budget was approved by the Authority in March 2016 along with a draft budget for the period 2017/18 to 2020/21.

For the purposes of the budget, it has been assumed that the complement of dedicated staff will remain at one Manager and one Senior Planner. This will reflect an increase in costs compared with 2015/16 as the Senior Planner's post has remained vacant during that time.

Work done by outside contractors is expected to be in the region of £30,000 in 2016/17 as work will be completed on Housing Market Area Review and the Housing Need and Demand Assessment. After this, it is anticipated that this will then drop until 2018/19 when the next Strategic Development Plan examination commences.

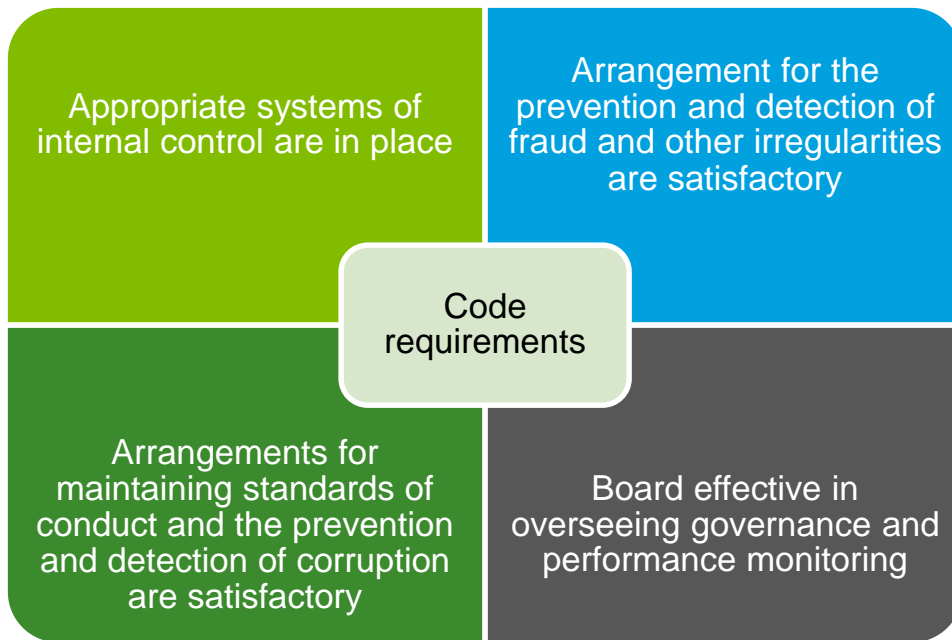
Deloitte conclusion

We have confirmed that a budget has been approved for 2016/17 and indicative plans are in place for the next four years.

Governance and transparency

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

In accordance with the Code of Audit Practice, we are required to consider and formally report in relation to the following key matters:



Deloitte conclusion

We confirm that we have reviewed the arrangements in each of the four areas and have identified no issues in this regard.

The Board met on a regular basis during 2015/16 in order to review performance to date, and to monitor changes from budget.

We are comfortable with the fraud arrangements in place and confirm there have been no instances of fraud which management have made us aware.

Internal Audit services continue to be provided through Aberdeenshire Council's Chief Internal Auditor, with no significant control weaknesses reported in the Authority's control environment.

Value for money

Value for money is concerned with using resources effectively and continually improving services.

Performance management and 15/16 overview

A performance report is provided each year which considers the achievements of the Authority in the year. The influence of a Strategic Development Plan has a longer timescale than one year and annual indicators of performance are therefore not considered appropriate. There is close analysis of key trend areas over time to consider the appropriateness of the plan.

The Strategic Development Plan, Housing Land Audit and Employment Land Audit all highlight the aspirational nature of the SDPA. Significant quantities of land are now available to the development industry as a result of the strategic framework set by the SDP.

The Plan targets national recognition for schemes and award winning schemes are being identified to the SDPA on a regular basis.

The SDPA has been awarded a Plan English Campaign “Crystal Mark” which recognises the quality of the communications issued. Regular use of the Authority’s website through its E-update system allows interested parties access to the most up to date information and the website is highly rated by major search engines.

No performance indicators have been specifically identified to measure financial performance. However, the Authority agrees a budget in advance of each year and considers a detailed budget monitoring report and a forecast for the year of income and expenditure at each meeting. This allows regular and close scrutiny of activities against specific financial targets to take place and is considered adequate for this organisation.

Deloitte conclusion

Performance is regular reviewed by the Board with results taken into account as part of longer term planning.

Your Annual Report

Our comments on your annual report

We welcome this opportunity to set out for the Authority our observations on the annual report. We are required to read the “front half” of your annual report to consider consistency with the financial statements and any apparent misstatements. Here we summarise our observations on your response to these areas:

Deloitte response

Management Commentary

The Management Commentary reflects on those matters companies are required to disclose under the Companies Act 2006, tailored for local authorities. This includes description of the principal risks and uncertainties facing the authority, a review of performance in the year, a measurement of progress against performance indicators and commentary on going concern.

We have read the Management Commentary in full in order to ensure that it is in line with our understanding of the Authority and complies with the required guidance on Management Commentary. We are satisfied with the contents of this report.

Governance Statement

The Governance Statement reports that the SDPA is in compliance with the aspects of the UK Corporate Governance Code which are set out within the guidance as being applicable to Authorities.

The format and content of the statement is consistent with the requirements of the Code and concludes that reasonable assurance can be placed on the adequacy and effectiveness of the Authority's Internal Control System in the year to 31 March 2016. No areas have been highlighted as requiring improvement, which is consistent with the findings of our audit.

Remuneration Report

The remuneration report has been prepared in accordance with the requirements of the Local Authority Accounts (Scotland) Regulations 2014, disclosing the remuneration of the senior employee working for the Authority. The Authority does not make any payments to any members of the Authority, whether elected Member or otherwise appointed, by way of salary, enhanced pension benefits or reimbursement of expenses.

We are satisfied that the remuneration report has been prepared in accordance with the amendment regulations and is consistent with the findings of our audit.

Purpose of our report and responsibility statement

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Authority and Controller of Audit discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK and Ireland) to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report.

What we don't report

- As you will be aware, our audit was not designed to identify all matters that may be relevant to the Authority.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

The scope of our work

- Our observations are developed in the context of our audit of the financial statements.
- We described the scope of our work in our audit plan and the supplementary "briefing on audit matters" previously circulated to you.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Deloitte LLP

Chartered Accountants

Edinburgh

9 September 2016

Appendices



Audit adjustments

Summary of uncorrected and corrected misstatements

Corrected misstatements

- No corrected misstatements have been noted in the audit for the year to 31 March 2016 from our audit work to date.

Uncorrected misstatements

- No uncorrected misstatements have been noted in the audit for the year to 31 March 2016 from our audit work to date.

Disclosure misstatements

- Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. We have noted no material disclosure deficiencies in the course of our audit work to date.

Fraud responsibilities and representations

Responsibilities explained

Responsibilities

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.

Required representations

We have asked the Authority to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity.

We have also asked the Authority to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

Audit work performed

- In our planning we identified the risk of fraud in revenue recognition and management override of controls as key audit risks for the Authority.
- During the course of our audit, we have had discussions with management and those charged with governance.

Concerns

As set out above we have identified the risk of fraud in other income recognition and management override of controls as a key audit risk for your organisation.

Independence and fees

There are no issues we wish to raise to you

As part of our obligations under International Standards on Auditing (UK & Ireland) and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General, we are required to report to you on the matters listed below:

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	Our audit fee for the year has been agreed at £5,000 (inclusive of VAT) and is within the indicative fee range set by Audit Scotland. There were no non-audit services for the period.
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the Authority's policy for the supply of non-audit services or of any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
Relationships	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence. We are not aware of any relationships which are required to be disclosed.

Events and publications

Our events and publications to support the Board

Sharing our informed perspective

We believe we have a duty to share our perspectives and insights with our stakeholders and other interested parties including policymakers, business leaders, regulators and investors. These are informed through our daily engagement with companies large and small, across all industries and in the private and public sectors.

Recent publications relevant to the Authority are shared below:

Perspectives: The public sector's talent retention challenge – How can a talent drain be avoided?

Although global governments are increasingly conscious of the value of skills, the UK's public sector workforce has been hit hard by austerity. Job losses, low morale and pay freezes have all fuelled concerns of a potential drain. Read the full blog here:

<http://www2.deloitte.com/uk/en/pages/public-sector/articles/public-sectors-talent-retention-challenge.html>

Publications

Decoding Digital Leadership

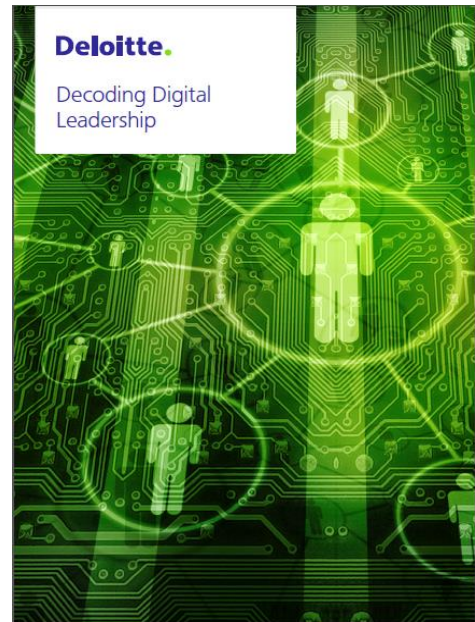
Surviving Digital Transformation

Digital transformation is a hot topic in government. The 2010 Spending Review mentioned the word 'digital' only four times in its reform plans, while the 2015 Review mentioned it 58 times. With that context, are senior leaders across government setting their organisations up for digital success?

Digital transformation requires top to bottom organisational transformation, which requires leaders who are willing and able to leverage digital to innovate, fail fast and drive value in an ambiguous context. Are your leaders equipped to drive digital transformation?

Download a copy of our publication here:

<http://www2.deloitte.com/uk/en/pages/public-sector/articles/decoding-digital-leadership.html>



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