



Strategic Development Planning Authority for Edinburgh and South East Scotland

2015/16 Annual audit
report to Members and the
Controller of Audit

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The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies (www.audit-scotland.gov.uk/about/ac/). Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General (www.audit-scotland.gov.uk/about/).

The Accounts Commission has appointed Bruce Crosbie of Audit Scotland as the external auditor of Strategic Development Planning Authority for Edinburgh and South East Scotland for the period 2011/12 to 2015/16.

This report has been prepared for the use of the Strategic Development Planning Authority for Edinburgh and South East Scotland and no responsibility to any member or officer in their individual capacity or any third party is accepted.

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

Audit of financial statements

- Unqualified auditor's report on the 2015/16 financial statements.
- Working papers were of a good standard and officers provided good support which enabled us to complete fieldwork by the target date.

Financial management and sustainability

- The financial management arrangements are broadly satisfactory.
- The Authority incurred a general fund deficit of £8,161 in 2015/16 reducing its usable reserves to £42,675.
- The Authority's usable reserve balance exceeds its target level of one month's operational costs (currently circa £24,000).

Governance and transparency

- The Authority had sound governance arrangements in place during 2015/16.
- There were no issues of concern in relation to the operation of the Authority's financial control systems.
- The Authority has appropriate anti-fraud arrangements.

Outlook

- The Authority intends to utilise £7,920 of its usable reserves during the period 2016-19 to fund net expenditure. Good financial management remains a priority as the requisitions level remain static at £279,300 over the period 2016/17 to 2018/19.

Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of the Strategic Development Planning Authority for Edinburgh and South East Scotland (SESplan). The report is divided into sections which reflect our public sector audit model.
2. The management of SESplan 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 SESplan 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. A number of local reports have been issued by us during the course of the year and these are summarised at [Appendix II](#) include recommendations for improvements, where applicable.
6. [Appendix III](#) is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that SESplan understands its risks and has arrangements in place to manage these risks. The Joint Committee and executive officers should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. 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.
8. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.
9. 2015/16 is the final year of the current five year audit appointment. From 2016/17 the auditor of SESplan will continue to be Audit Scotland. In accordance with agreed protocols and International Standards on Auditing we will be liaising with the incoming auditors as part of this transition.

Audit of the 2015/16 financial statements

Audit opinion	<ul style="list-style-type: none"> We have completed our audit of the Authority and issued an unqualified independent auditor’s report.
Going concern	<ul style="list-style-type: none"> The financial statements of the Authority have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the Authority’s ability to continue as a going concern.
Other information	<ul style="list-style-type: none"> We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.

Submission of financial statements for audit

10. We received the unaudited financial statements on 3 June 2016, in accordance with the agreed timetable. The working papers were of a good standard and council staff provided good support to the audit team which assisted the delivery of the audit to deadline.

Overview of the scope of the audit of the financial statements

11. 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 presented to the Joint Committee in May 2016.

12. 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 2015/16 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

13. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. [Appendix I](#)

sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

14. 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

15. 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. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).
16. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
17. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of SESplan, we set our planning materiality for 2015/16 at £3,375 (1% of 2014/15 gross expenditure). We report all misstatements greater than £100. Performance materiality was calculated at £2,362, to reduce to an

acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.

18. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that materiality was to be set at £2,896 and performance materiality at £2,027. This was a result of reduced expenditure by the Authority in 2015/16 compared to 2014/15.

Evaluation of misstatements

19. All misstatements identified during the audit, which exceeded our misstatement threshold, have been amended in the financial statements.
20. A number of presentational and monetary adjustments were identified during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements.

Significant findings from the audit

21. International Standard on Auditing (ISA) 260 requires us to communicate to you significant findings from the audit, including:
 - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement 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.
22. The following table details those issues or audit judgements that, in our view, require to be communicated to those charged with governance in accordance with ISA 260.

Table 1: Significant findings from the audit

Significant findings from the audit in accordance with ISA260

Understatement of Creditors

During our testing of creditors, two invoices totalling £9,655 which were for goods and services provided in 2015/16 but were paid in 2016/17 were not included in the creditors balance. In addition, an outstanding credit note of £2,450 was incorrectly netted against the creditors balance instead of being included in debtors.

Due to its material nature, the creditors balance was increased by a total of £12,105, with an increase in cash of £9,655 and an increase in Debtors of £2,450.

Future accounting and auditing developments

Code of Audit Practice

23. A new Code of Audit Practice will apply to all audits from financial year 2016/17. There will be a focus on four areas:
- Financial sustainability
 - Financial management
 - Governance and transparency; and
 - Value for money
24. In addition, as well as the annual audit report, other significant outputs, such as the annual audit plan, will be published on Audit Scotland's website.

Financial management and sustainability

Financial management

25. In this section we comment on the Authority's financial outcomes and assess the Authority's financial management arrangements.
26. The Authority sets an annual budget to meet its service and other commitments for the forthcoming financial year. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

Financial outcomes

27. The 2015/16 Annual Accounts show an accounting deficit of £10,127 on the provision of services (2014/15 deficit of £33,546). Adjusting this balance to remove the accounting entries required by the Code, the Authority actually reduced its reserve balance by £8,161.
28. The operating budget for 2015/16 was approved by the Joint Committee in December 2014 and included budgeted net expenditure of £20,324. With actual net expenditure of £10,127, the Authority reported an underspend of £10,197 in 2015/16. This underspend was mostly due to a saving of £14,627 from delaying expenditure on two publications that will fall in 2016/17, offset by increased staffing costs of £4,258 for temporary cover.

Financial management arrangements

29. As auditors, we need to consider whether adequate financial management arrangements have been established. We do this by considering a number of factors, including whether:
 - the proper officer has sufficient status within the organisation to be able to deliver good financial management
 - financial regulations are comprehensive, current and promoted within the Authority
 - 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.
30. The Treasurer, as section 95 officer, is responsible for ensuring proper accounting records are kept.
31. The Authority has adopted Fife Council's financial regulations, which we have assessed and found to be adequate.
32. In line with our 2014/15 recommendation financial monitoring reports are now submitted to the Joint Committee for scrutiny twice a year.

Conclusion on financial management

33. We have concluded that the Authority’s financial management arrangements are broadly satisfactory.

Financial sustainability

34. Financial sustainability means that the Authority has the financial capacity to meet its current and future needs.
35. In assessing financial sustainability we consider whether:
- there is an adequate level of reserves
 - spending is being balanced with income in the short term
 - long term financial pressures are understood and planned for.
36. Effective long-term financial planning and workforce planning are crucial to financial sustainability, and so should continue to be managed carefully.

Reserves

37. The overall level of usable reserves held by the council as at 31 March 2016 totalled £42,675, a decrease of £8,161 compared to the previous year end (refer Exhibit 1).

Exhibit 1: Usable reserves

Description	31 March 2015	31 March 2016
	£	£
Usable reserves	50,836	42,675

Source: SESplan 2015/16 financial statements

38. The principal purpose of holding this reserve is to provide a contingency fund to meet unexpected events and as a working balance to help cushion the impact of uneven cash flows.
39. SESplan strives to maintain a usable reserve sufficient to cover one month’s operating expenditure (currently around £24,000). The level of usable reserves as at March 2016 significantly exceeded this cover and there may be merit in re-assessing the Authority’s use of its usable reserve.

Action Plan, point 1

Financial planning

40. Budgeted expenditure for 2016/17 is £286,336. This is significantly reduced from the 2015/16 budget of £300,874, as a result of a reduced requirement for technical support.
41. The longer term budget for SESplan from 2016-17 to 2018/19 indicates that there will also be a further reduction in reserves of £7,920 over that period. No adjustments are planned to the levels of requisitions sought from member authorities.

Conclusion on financial sustainability

42. We have concluded that the Authority has an adequate level of reserves, although there may be scope to reassess the use of the balance which is currently sitting above the Authority's target level. We have also concluded that the Authority has credible medium term financial plans in place.

Outlook

43. The Authority's main source of income is contributions from member authorities. Requisitions for 2016/17 were agreed at £279,300 (£279,300 in 2014/15), comprising £46,550 (£46,550 in 2014/15) from each of the six member authorities.
44. Local government bodies are facing increasingly difficult financial challenges. The 2015/16 operational budget report presented to members in December 2015 sets out the Authority's estimated budgets for the three years from 2016 – 2019. During this period requisition income is set to remain static at £279,300, however the Authority plans to make deductions from its usable reserves of £7,920. This is due to planned expenditure exceeding the total requisitions received from member authorities. The Authority approved its revenue budget for 2016/17 at the Joint Committee in December 2015.

Governance and transparency

Corporate governance

45. Members and management of the Authority 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. On the basis of our cumulative knowledge and review of relevant documents, we have concluded that the Authority had sound governance arrangements in place.

Internal control

46. 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.
47. The Authority uses the corporate financial systems of Fife Council for its operations. As external auditors of the council, we have reviewed these systems and have concluded that overall, the key financial systems are operating satisfactorily. As a result 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.

48. The Annual Governance Statement refers to an annual assurance statement from Fife Council's Audit and Risk Management Services (ARMS) Manager which includes a review the effectiveness of internal control within the council. The Statement for 2015/16 notes that "the systems Corporate Governance and internal control remain in the main robust with improvements in a number of areas and action being taken to address areas of weakness". This Statement has informed the review of effectiveness of the systems used by SESplan.

Internal audit

49. Internal audit provides members and management of the council with independent assurance on risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.
50. Internal audit services are provided by the Audit and Risk Management Services (ARMS) of Fife Council, however ARMS did not carry out any work which directly impacts on the Authority and which we placed reliance on for 2015/16.

Arrangements for the prevention and detection of fraud

51. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularities. We conclude that the Authority's overall arrangements for the prevention of fraud and irregularity are satisfactory, 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

52. The arrangements for the prevention and detection of corruption in SESplan are satisfactory and we are not aware of any specific issues that we need to record in this report.

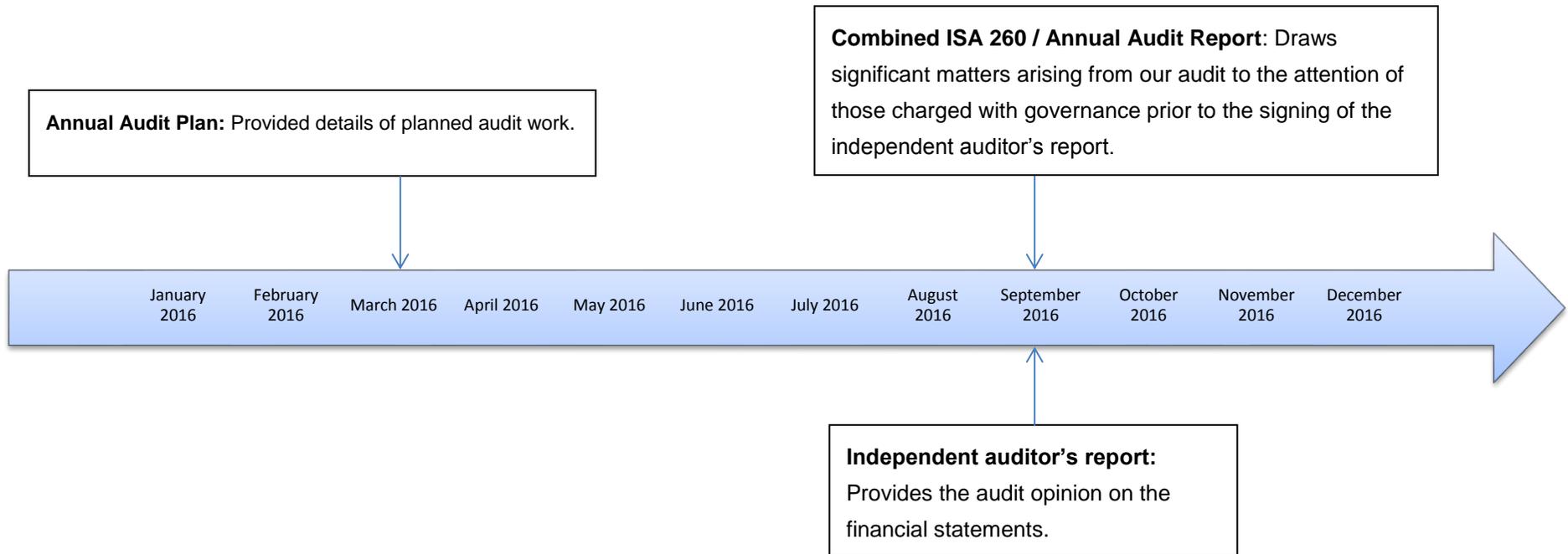
Appendix I: Significant audit risks

The table below sets out the financial statement audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Financial statement issues and risks		
<p>Accounting for transactions in the wrong year</p> <p>In both 2013/14 and 2014/15 we identified transactions which had been accounted for in the wrong year which, had they not been corrected, would have had a material impact on the financial statements.</p> <p>Risk: Transactions may not be accounted for in the correct year.</p>	<ul style="list-style-type: none"> Detailed 'cut-off' testing of transactions at the year end. 	<p>Detailed cut-off testing did not find any issues.</p>
<p>Management override of controls</p> <p>ISA 240 <i>The auditor's responsibilities relating to fraud in an audit of financial statements</i> requires auditors to consider, on all audits, management's ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that</p>	<ul style="list-style-type: none"> Detailed testing of journal entries. Review of accounting estimates for bias. Evaluating significant transactions that are outside the normal course of business. 	<p>We reviewed material journal entries in the SESplan ledger, and found these to be reasonable and based on sufficient evidence, including reasonable accounting estimates where necessary.</p> <p>Our audit did not highlight any transactions that were considered to be outside the normal</p>

Audit Risk	Assurance procedure	Results and conclusions
otherwise appear to be operating effectively. Risk: Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls.		course of business.

Appendix II: Summary of local audit reports 2015/16



Appendix III: Action plan

No. Page/Para.	Issue/risk/Recommendation	Management action/response	Responsible officer / Target date
1. 10 / 37-39	<p>The Authority has a general fund balance of £42.675 as at 31 March 2016, which significantly exceeds the Authority's target level of one month's operating costs (currently around £24,000).</p> <p>Risk: The Authority may have accumulated excessive reserves which could be returned to constituent authorities to aid their provision of council services.</p> <p>Recommendation: There may be merit in re-assessing the Authority's use of reserves.</p>	<p>Revised budgets for 2017-20 are currently being drafted for agreement by the Board and SDPA manager and will be submitted to Joint Committee for approval in December 2016. The level of reserves will be part of that discussion.</p>	<p>SDPA Manager/ December 2016</p>