

Aberdeen City and Shire Strategic Development Planning Authority

2016/17 Annual Audit Report



 AUDIT SCOTLAND

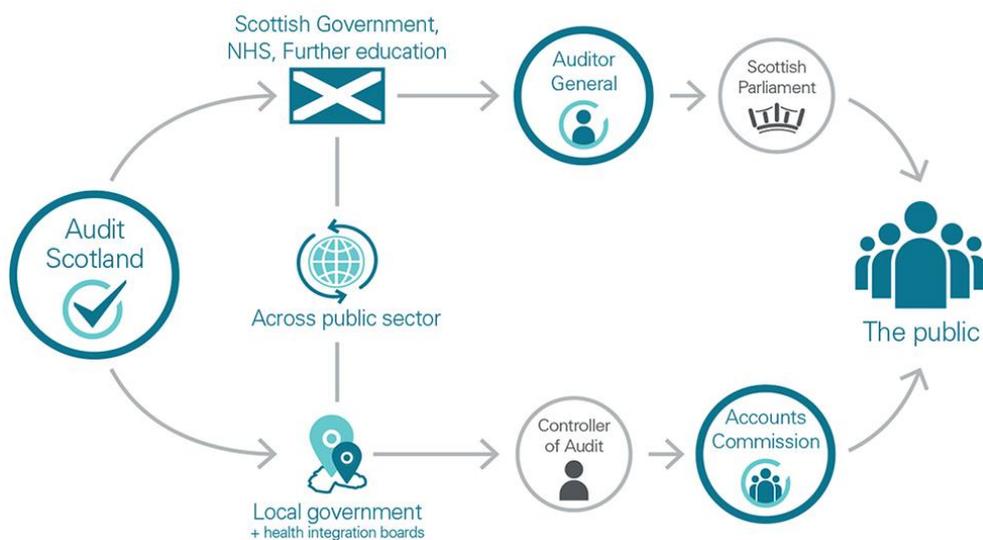
Prepared for Aberdeen City and Shire Strategic Development Planning Authority
and the Accounts Commission

20 September 2017

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish Ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

Contents

Key messages	4
Introduction	5
Part 1 Audit of 2016/17 annual accounts	6
Part 2 Financial sustainability	9
Part 3 Governance	10
Appendix 1 Action plan 2016/17	13
Appendix 2 Significant audit risks identified during planning	14

Key messages

2016/17 annual accounts

- 1 Our audit opinions were all unqualified. These covered the financial statements, management commentary, remuneration report and the annual governance statement.

Financial sustainability

- 2 The authority incurred an underspend against budget in respect of 2016/17 due to recruitment difficulties.
- 3 Each year the authority prepares and submits a 5 year provisional budget to partner bodies. This provides the authority with some financial stability.

Governance

- 4 Satisfactory internal financial controls are in operation but overall governance could be enhanced through the adoption of a revised local code of corporate governance.

Introduction

- 1.** This report is a summary of our findings arising from the 2016/17 audit of Aberdeen City and Shire Strategic Development Planning Authority (SDPA). The report is divided into sections which reflect our public sector audit model.
- 2.** The scope of our audit was set out in our Annual Audit Plan presented to the board in June 2017. In accordance with Audit Scotland's Code of Audit Practice, we explained at that time that the small body clause applies to the SDPA. The main elements of the 2016/17 audit therefore included:
 - assurances to support our opinion on the annual accounts
 - consideration of the appropriateness of the disclosures in the annual governance statement
 - a review of financial sustainability.
- 3.** The SDPA is responsible for preparing annual accounts that show a true and fair view and for establishing effective arrangements for governance to enable successful delivery of objectives.
- 4.** Our responsibilities as independent auditor are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice \(2016\)](#), and supplementary guidance, and are guided by the auditing profession's ethical guidance. The Code and supplementary guidance also provide details of management's responsibilities with regard to the accounts.
- 5.** These responsibilities include giving independent opinions on the financial statements, the remuneration report, the management commentary and the annual governance statement.
- 6.** The weaknesses or risks identified in this report are only those that have come to our attention during our normal audit work, and may not be all that exist. Also, our annual audit report contains an action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation.
- 7.** Communication in this report of matters arising from the audit of the annual accounts or of risks or of weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.
- 8.** As part of the requirement to provide fair and full disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2016/17 audit fee was set out in our Annual Audit Plan and as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.
- 9.** This report is addressed to both the SDPA and the Accounts Commission and will be published on Audit Scotland's website www.audit-scotland.gov.uk.
- 10.** We would like to thank all management and staff who have been involved in our work for their co-operation and assistance during the audit.

Part 1

Audit of 2016/17 annual accounts



Main judgement

We provided unqualified audit opinions on the accounts.

Unqualified audit opinions

11. The annual accounts for the year ended 31 March 2017 were approved by the board on 20 September 2017. We reported, within our independent auditor's report:

- an unqualified opinion on the financial statements
- unqualified opinions on the remuneration report, management commentary and the annual governance statement.

12. Additionally, we have nothing to report in respect of those matters which we are required by the Accounts Commission to report by exception.

Submission of annual accounts for audit

13. We received the unaudited financial statements on 20 June 2017 in line with our agreed audit timetable.

14. The Treasurer is also the Head of Finance for Aberdeenshire Council and consequently, his team provides finance and accounting support to the authority.

Risks of material misstatement

15. [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process, how we addressed them and conclusions.

Materiality

16. Materiality defines the maximum error that we are prepared to accept and still conclude that our audit objective has been achieved. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

17. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and was reviewed on receipt of the unaudited accounts. Our materiality values are summarised in [Exhibit 2](#). Specifically with regard to the annual accounts, we assess the materiality of uncorrected misstatements, both individually and collectively.

The annual accounts are the principal means of accounting for the stewardship of resources.

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2017.	£1,590
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 have calculated performance materiality at 70% of overall materiality.	£1,110
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 5% of overall materiality.	£80

Evaluation of misstatements

18. An amendment was made to the accounts to reflect a late creditor of £8k. This reduced the surplus from £41k to £33k. There were no unadjusted misstatements which require to be reported.

Significant findings

19. International Standard on Auditing (UK and Ireland) 260 requires us to communicate to you significant findings from the audit. These are summarised in [Exhibit 3](#).

Management commentary, annual governance statement and remuneration report

20. The [Code of Audit Practice 2016](#) requires bodies to prepare and publish, along with their financial statements, an annual governance statement, management commentary and a remuneration report that are consistent with the disclosures made in the financial statements. From 2016/17, in giving an unqualified audit opinion, we are also confirming that these statements have been prepared in accordance with relevant regulations and/or guidance.

21. During the audit process, an action plan was added to the annual governance statement to reflect work to be undertaken as a result of revised guidance contained in the CIPFA/SOLACE 'Delivering Good Governance in Local Government: Framework'.

Exhibit 3

Significant findings from the audit of the financial statements

Issue	Resolution
<p>1. Service analysis</p> <p>The Comprehensive Income and Expenditure Statement in the draft accounts was presented in line with the Service Reporting Code of Practice as in previous years.</p> <p>With effect from 2016/17, the Code of Practice on Local Authority Accounting requires bodies to present the service analysis on the basis of the organisational structure under which they operate and report. Bodies are no longer required to follow the service analysis in the Service Reporting Code of Practice.</p>	<p>Resolution</p> <p>The revised accounts have been amended to reflect the 2016/17 Code requirements.</p>

Objections

22. The Local Authority Accounts (Scotland) Regulations 2014 (2014 Regulations) require a local authority body to publish a public notice on its website that includes details of the period the unaudited accounts are available for public inspection and the process for making an objection to the accounts. The notice must remain on the website throughout the statutory 3 week inspection period.

23. The SDPA accounts were not made available for inspection online as required. Following audit notification, this was rectified during the inspection period and the period of inspection was extended to ensure the unaudited accounts were publicly available for a 3 week period.

Part 2

Financial sustainability



Main judgement

The authority experiences some financial stability through the preparation and submission of a five year financial plan each year.

Financial planning

24. The authority achieved an underspend against budget in 2016/17 due to recruitment difficulties. The authority set its 2016/17 budget in March 2016 alongside provisional figures for 2017-21. The planned five year spend is largely in line with previous years; the only exception being increased legal fees incurred in 2016/17 and anticipated in 2017/18 in connection with the authority's appeal through the Supreme Court. This relates to a legal challenge by a local landowner in response to the SDPA's adoption of supplementary planning guidance.

25. The authority had a general fund balance of £137k at 31 March 2017. The recent increase in the fund, due to the underspend in the year, has been approved on the basis it will provide a cushion for additional legal costs expected in 2017/18.

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.

Part 3

Governance



Main judgement

Satisfactory internal financial controls in operation but overall governance could be enhanced through the adoption of a revised local code of corporate governance.

Governance arrangements

26. The authority was designated under the Planning etc (Scotland) Act 2006 and required Aberdeen City and Aberdeenshire Councils to jointly prepare and keep under review a strategic development plan for the strategic development plan area.

27. The board has 12 members, six each from Aberdeenshire and Aberdeen City Councils and it met on five occasions during 2016/17. We review minutes of board meetings and periodically observe meetings for a greater insight into proceedings.

Financial regulations

28. The financial regulations have been in place since 2009 and while they remain relevant, several references are now out of date due to changes in relevant legislation and guidance. For example, they should reflect the requirements of the 2014 Regulations in respect of published accounts and review of internal control.

29. The existing financial regulations require the audited accounts to be submitted to the board within two months of being certified. This practice was replaced in the 2014 Regulations by the requirement for the board to consider the audited accounts and to approve them for signature prior to 30 September each year. Thereafter, the audited accounts and the auditor's annual report require to be published on the authority's website.

30. The 2014 Regulations also require the authority to review its system of internal control on an annual basis prior to the board's approval of the annual governance statement. The financial regulations require the authority to have an effective system of internal control in place and they also provide for 'periodic' reviews by internal audit. There is scope for the financial regulations to be reviewed to ensure the requirements of the 2014 Regulations have been addressed.

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

Recommendation 1

Local code of corporate governance

31. Through a service level agreement, the authority uses the financial systems of Aberdeenshire Council to process its transactions. These systems are subject to a continuous internal audit by the council's chief internal auditor. In our Annual Audit Plan, we acknowledged that the authority is a small body and as such it is appropriate that it uses and takes assurance from council systems. Through the audit process, revised wording was agreed with the Treasurer for inclusion in the annual governance statement to confirm the authority's reliance on council systems and to clarify the level of assurance provided by the council's chief internal auditor in respect of those systems.

32. With effect from 2016/17, the CIPFA/SOLACE 'Delivering Good Governance: Framework (2016)' applies to all local government bodies. The professional bodies have acknowledged that an annual review against the framework will meet the requirements of an effectiveness review under the 2014 Regulations.

33. The framework sets out a range of core and sub principles for good governance including behaviour, openness and transparency, leadership capacity, decision making and risk and internal control. While the authority should continue to take assurance from the council in respect of financial systems and internal controls, the framework is wider and extends to the vision, leadership and operation of the authority's board. It is therefore appropriate that the authority adopts a revised local code of corporate governance in response to the framework and puts plans in place to conduct an annual review.

Recommendation 2

Internal audit

34. The authority's internal auditor is Aberdeenshire Council's chief internal auditor. In respect of 2016/17, he concluded that reasonable assurance could be taken from the financial controls the authority has in place based on his programme of work on council systems.

35. As external auditors for the council, we concluded that internal audit operated in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation, standards and reporting procedures in place.

Financial management

36. Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. It is the authority's responsibility to ensure that its financial affairs are conducted in a proper manner.

37. As auditors, we need to consider whether audited bodies have established adequate financial management arrangements. We do this by considering a number of factors, including whether:

- the Treasurer has sufficient status to be able to deliver good financial management
- financial regulations and standing orders are comprehensive, current and promoted within the authority
- reports monitoring performance against budgets are accurate and provided regularly to budget holders.

38. Overall, financial management within the authority is considered to be satisfactory, with appropriate monitoring reports being regularly submitted to the board for scrutiny.

Prevention and detection of fraud and irregularity

39. Through its financial regulations, the authority had adopted the fraud and whistleblowing policies of Aberdeenshire Council. While this is an appropriate arrangement, as the council's external auditors, we recommended that the fraud strategy which currently dates from 2012 be refreshed to reflect current good practice and once updated, the strategy should be re-issued and widely promoted.

Appendix 1

Action plan 2016/17



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no.

Issue/risk

Recommendation

Agreed management
action/timing

11/30 The Financial Regulations have not been updated to reflect the requirements of the 2014 Regulations e.g. consideration and approval of audited accounts, responsibility for annual review of internal controls.

Risk: the authority does not comply with statutory requirements.

Review and update the Financial Regulations to reflect the requirements of the 2014 Regulations.

Financial Regulations will be reviewed and revised during 2017/18.

Treasurer

12/33 Assurances on the effectiveness of the authority's governance arrangements focus on the council's financial systems and internal controls. Wider governance arrangements around the operation of the authority's board have not been reviewed.

Risk: the authority does not meet the expectations of the Delivering Good Governance Framework.

The authority should adopt a local code of corporate governance including plans for annual review.

A review of working arrangements will be carried out in early 2018 to take into account the CIPFA/SOLACE 'Delivering Good Governance in Local Government: Framework' (2016) and a local code adopted thereafter.

Manager/Treasurer

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion.

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable in this instance. 	<ul style="list-style-type: none"> Based on audit work undertaken, no issues were identified.
<p>2 Changes in accounting requirements</p> <p>The 2016/17 Code of Practice on Local Authority Accounting introduced a number of changes in the presentation of the financial statements including a new expenditure and funding analysis and changes in the governance statement. There is a risk the financial statements will not comply with the Code and/or contain a material misstatement.</p>	<ul style="list-style-type: none"> The Finance team are alert to Code changes and the impact on the financial statements. 	<ul style="list-style-type: none"> Amendments were made to the annual accounts to meet the requirements of the revised Code.
<p>3 New Payroll System</p> <p>Financial services including payroll administration are provided to the SDPA by Aberdeenshire Council. The council introduced a new payroll system with effect from 1 April 2016. As with many new systems, there were issues during implementation. There is a risk that payroll is not functioning correctly and staff costs are misstated.</p>	<ul style="list-style-type: none"> Assurances from Aberdeenshire over services provided Budget monitoring arrangements. 	<ul style="list-style-type: none"> Based on audit work undertaken, no issues were identified.

Aberdeenshire Aberdeen City and Shire Strategic Development Planning Authority

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