

The Strategic Development Planning Authority for Edinburgh and South East Scotland

2017/18 Annual Audit Report



 AUDIT SCOTLAND

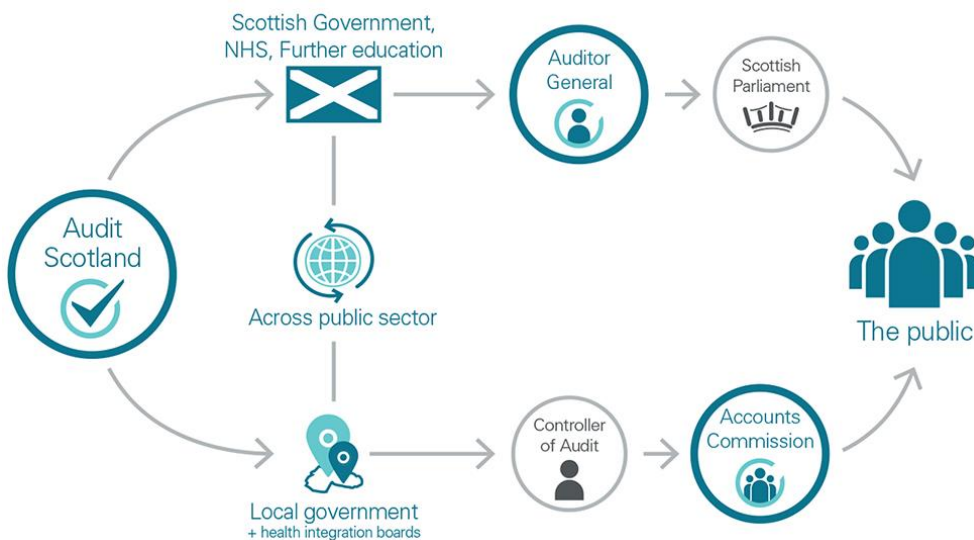
Prepared for the Members of the Strategic Development Planning Authority for Edinburgh and South East Scotland and the Controller of Audit

14 September 2018

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 2017/18 annual accounts	7
Part 2 Financial management	10
Part 3 Financial sustainability	12
Part 4 Governance and transparency	13
Part 5 Value for money	16
Appendix 1 Action plan 2017/18	17
Appendix 2 Significant audit risks identified during planning	19
Appendix 3 Summary of national performance reports 2017/18	20

Key messages

2017/18 annual accounts

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

Financial management

- 2 Financial management is effective with a budget process focussed on SESplan's priorities.
- 3 SESplan uses the corporate financial systems of Fife Council for its operations. These systems are operating satisfactorily, and no significant internal control weaknesses have been identified.

Financial sustainability

- 4 SESplan's financial position is sustainable in the foreseeable future. It has a sufficient level of reserves in place and there is a medium term financial plan which aligns to the objectives of a strategic development planning authority.

Governance and transparency

- 5 SESplan has appropriate governance arrangements in place for an organisation of its size.
- 6 It is open and transparent in the way it conducts its business and the public can attend meetings of the Joint Committee. Minutes and agenda papers are readily available on the website.

Value for money

- 7 An annual performance report showing progress against key objectives along with actions required in the next year is considered by the Joint Committee. This enables members to monitor performance and hold officers to account on key delivery targets.

Introduction

1. This report summarises the findings arising from the 2017/18 audit of Strategic Development Planning Authority for Edinburgh and South East Scotland (SESplan).

2. The scope of the audit was set out in our Annual Audit Plan presented to the SESplan meeting on 25 June 2018. This report comprises the findings from:

- an audit of the annual accounts
- consideration of the four audit dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1

Audit dimensions



Source: *Code of Audit Practice 2016*

3. The main elements of our audit work in 2017/18 have been:

- an interim audit of SESplan's main financial systems and governance arrangements. In relation to the financial systems, this work centred around consideration of the findings from our review of Fife Council's financial systems in our role as auditors of that body.
- an audit of SESplan's 2016/17 annual accounts and issue of an independent auditor's report setting out our opinions.
- consideration of the four audit dimensions.

4. SESplan has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.

5. SESplan is also responsible for compliance with legislation, and putting arrangements in place for governance, propriety and regularity that enable it to successfully deliver its objectives.

6. Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government in Scotland Act 1973, the [Code of Audit Practice \(2016\)](#) and supplementary guidance, and International Standards on Auditing in the UK.

7. As public sector auditors we give independent opinions on the annual accounts. We also review and provide conclusions on the effectiveness of SESplan's performance management arrangements, suitability and effectiveness of corporate governance arrangements, and financial position and arrangements for securing financial sustainability. In doing this we aim to support improvement and accountability.

8. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).

9. This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to their 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.

10. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and progress against these.

11. 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 the 2017/18 audit fee of £2,810 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

Adding value through the audit

12. Our aim is to add value to SESplan by providing insight into, and offering foresight on, financial sustainability, risk and performance by identifying areas of improvement and recommending and encouraging good practice. In so doing, we aim to help SESplan promote improved standards of governance, better management and decision making and more effective use of resources.

13. This report is addressed to both SESplan and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk.

14. 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 2017/18 annual accounts



Main judgements

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

Audit opinions on the annual accounts

15. The annual accounts for the year ended 31 March 2018 were approved by SESplan on 14 September 2018. We reported, within our independent auditor's report that, in our opinion:

- financial statements give a true and fair view and were properly prepared
- the audited part of the remuneration report, management commentary and the annual governance statement were all consistent with the financial statements and properly prepared in accordance with the guidance

16. We have nothing to report in respect of other information in the financial statements, the adequacy of accounting records or the information and explanations we received.

Submission SESplan annual accounts for audit

17. We received the unaudited annual accounts on 29 June 2018 in line with the audit timetable set out in our 2017/18 Annual Audit Plan.

18. The working papers provided with the unaudited accounts were of a good standard and finance staff provided good support to the audit team during the audit. This helped ensure that the audit of the annual accounts process ran smoothly.

Risk of material misstatement

19. [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process which had the greatest effect on the overall audit strategy, the allocation of resources to the audit and directing the efforts of the audit team and the wider audit dimension risks identified.

Materiality

20. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement. On receipt of the annual report and accounts we reviewed our planning materiality and concluded that, the materiality levels required only minor adjustment. These are shown at [Exhibit 2](#).

SESplan annual accounts are the principal means of accounting for the stewardship of resources and performance in the use of resources.

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality	£1,600
Performance materiality	£1,000
Reporting threshold	£100

Significant findings from the audit in accordance with ISA 260

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

22. The findings include our views about significant qualitative aspects of SESplan's accounting practices including:

- Accounting policies
- Significant financial statements disclosures
- The impact on the financial statements of any uncertainties
- Misstatements in the annual accounts
- Accounting estimates and judgements
- Timing of transactions and the period in which they are recorded
- The effect of any unusual transactions on the financial statements
- Disagreement over any accounting treatment or financial statements disclosure

23. There are no significant findings from the audit to draw to your attention.

How we evaluate misstatements

24. The Remuneration Report disclosure should identify the remuneration earned by senior officers. We reported last year that the report reflected the amount paid to individuals rather than the amount earned. This is not in accordance with the underlying regulation which requires *"The Remuneration Report for each financial year is to show, in tabular form, against the post held and name of each relevant person the total amounts (before tax and other deductions), whether received or receivable, by each relevant person from the local authority or, as the case may be, local authority subsidiary body"*. The reference to "or receivable" indicates that the remuneration report should be prepared on an accruals basis. The 2017/18 remuneration report continued to reflect amounts paid rather than earned resulting in an understatement of senior employee salaries of £147.



[Recommendation 1 \(refer appendix 1, action plan\).](#)

25. It is our responsibility to request that all errors are corrected although the final decision on this lies with those charged with governance considering advice from senior officers and materiality. Management do not propose to adjust for the item above as the amount is not considered material in the context of the financial statements. We agree that these amounts are not material.

Follow up of prior year recommendations

26. We have followed up actions previously reported and assessed progress with implementation, these are reported in [Appendix 1](#) and identified by the prefix b/f (brought forward).

27. In total, two agreed actions were raised in 2016/17, Of these:

- One has been fully implemented
- One is not actioned

28. Overall SESplan has made reasonable progress in implementing these actions. For the action not yet implemented, a revised response and timescale has been agreed with management as set out in [Appendix 1](#).

Other findings

29. Our audit identified several presentational and disclosure issues which were discussed with management. These were adjusted and reflected in the audited annual accounts.

Objections

30. The Local Authority Accounts (Scotland) Regulations 2014 require a local authority to publish a public notice on its website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. SESplan complied with the regulations. There were no objections to the accounts.

Part 2

Financial management



Main judgements

Financial management is effective with a budget process focussed on SESplan's priorities.

SESplan uses the corporate financial systems of Fife Council for its operations. These systems are operating satisfactorily, and no significant internal control weaknesses have been identified.

Financial performance in 2017/18

31. The SESplan financial regulations require the operating budget for the next year to be agreed each December. The planned net operating expenditure for 2017/18 of £21,974 was approved in principle by the Joint Committee in November 2016 and confirmed at £35,025 in March 2017.

32. Actual performance for the year was an underspend against the 2017/18 operating budget of £141,689 as demonstrated in [Exhibit 3](#) and resulted in an accounting surplus on the provision of services of £106,664. This was primarily due to savings on:

- Employee costs - £56,668 saved due to staffing vacancies
- Supplies & services - £77,402 saved mainly owing to consultancy fees which are now forecast to be incurred in the 2018/19 financial year.

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

Exhibit 3 Budget summary

SESplan budget summary	Budget £	Actual £	Variance £
Net (Income)/Expenditure	£35,025	(106,664)	(141,689)
Usable Reserves (Note 1)	£57,490	198,598	141,638

Source: SESplan Annual Accounts 2017/18

Note 1 – the budgeted reserve figure here is the opening position less the budgeted net expenditure (£92,515 - £35,025)

Systems of internal control

33. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that SESplan has systems of

recording and processing transactions which provide a sound basis for the preparation of the financial statements.

34. SESplan 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. No significant control weaknesses were identified which could affect SESplan's ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the financial statements.

35. SESplan relies on an Annual Assurance Statement from the Audit and Risk Management Service of Fife Council to obtain assurance over the internal controls at Fife Council. This statement concluded that "The system of 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". We considered these weaknesses and found none that had an impact on SESplan.

Part 3

Financial sustainability



Main judgements

SESplan's financial position is sustainable in the foreseeable future. It has a sufficient level of reserves in place and there is a medium term financial plan which aligns to the objectives of a strategic development planning authority.

Financial planning

36. It is important that long-term financial strategies (typically covering five to ten years) are in place which link spending to the organisation's strategies. Although members only approve the budget for a single year, this should be supported by indicative future spending plans (covering at least three years) that forecast the impact of relevant pressures.

37. SESplan has a medium term financial plan in place (2017-20) aligned to the objectives of a strategic development authority, mainly the development of a strategic development plan for the area. The income from constituent members for each of the three years was set at £46,550. This level was agreed in principle when the 2017/18 budget was considered in November 2016 and reconsidered in March 2017, with member contributions being reduced to £44,000. Further reductions were agreed for the 2018/19 budget in November 2017 with the constituent members contribution being reduced to £10,000 (see paragraph 40 below).

Reserves

38. One of the key measures of the financial health of an organisation is the level of reserves held. SESplan has both a usable and an unusable reserve, the latter reflects accumulated leave earned by staff but not taken before 31 March 2018.

39. The usable reserve is the largest balance and there is no restriction on its use. Its main purpose is to provide a contingency fund to meet unexpected expenditure and to help cushion the impact of uneven cash flows. SESplan's approach is to hold £20,000 usable reserves sufficient to cover approximately one month's expenditure.

40. As highlighted at paragraph 31 the 2017/18 budget anticipated using £35,025 however an underspend on expenditure in the year resulted in the useable reserves increasing from £92,515 to £198,598. This equates to almost ten months expenditure. The increasing level of reserves is being addressed through the 2018/19 operating budget reduction in constituent members contributions and SESplan has planned to use £123,000 of the reserves next year. We will continue to monitor the level of reserves going forward.

Financial sustainability looks forward to the medium and long term to consider whether the Authority is planning effectively to continue to deliver its services or the way in which they should be delivered

Part 4

Governance and transparency



Main Judgements

SESplan has appropriate governance arrangements in place for an organisation of its size.

It is open and transparent in the way that it conducts its business, with the public able to attend meetings of the Joint Committee. Minutes and agenda papers are readily available on the website.

Governance arrangements

41. As part of the audit, we consider the effectiveness of the arrangements in place and whether in the auditor's judgement they support good governance and accountability.

42. Our work included reviewing the Standing Orders, Scheme of Delegation and risk management reporting. We confirmed that the governance arrangements in place for SESplan are appropriate and adequate for the size of the Authority.

43. We also considered the role and responsibility of SESplan's governing committee, (the Joint Committee), comprising of two members from each of the constituent authorities. The Joint Committee is responsible for oversight of the creation and review of the area's Strategic Development Plan, meeting not less than twice a year to discuss any matters. We considered the frequency of meetings, and quality of information provided to the Joint Committee to be sufficient.

44. Overall, we have concluded that the governance arrangements in place are appropriate for an organisation the size of SESplan.

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.

Transparency

45. Transparency means that the public have access to understandable, relevant and timely information about how SESplan is taking decisions and how it is using resources such as money, people and assets.

46. There is evidence from its website which demonstrate SESplan's commitment to transparency. Members of the public can attend meetings of the Joint Committee and minutes of these meetings and supporting papers are readily available on the website for all meetings in the preceding two years.

47. SESplan makes both its unaudited and audited annual accounts available on its website. These include a management commentary which provides:

- References to, and additional explanations of, amounts included in the financial statements. This includes the performance against budget

- Details of the main factors likely to affect the future development, performance and position of SESplan's operations

48. Overall, we concluded that SESplan conducts its business in an open and transparent manner.

Internal audit

49. Internal audit provides management and members with independent assurance on SESplan's overall risk management, internal control and corporate governance processes. The internal audit function is carried out by Fife Council's Audit and Risk Management Service (ARMS). In 2017/18 internal audit undertook a review of SESplan Governance. The report concluded that most expected controls are in place and operating effectively, and the audit uncovered no critical weaknesses.

Management commentary, annual governance statement and remuneration report

50. The Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 requires local government authorities 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. The management commentary should be fair, balanced and understandable and clearly address the longer-term financial sustainability of the body.

51. Based on our knowledge and work performed, we concluded that the management commentary, annual governance statement and remuneration report are consistent with the financial statements.

Standards of conduct for prevention and detection of fraud and error

52. SESplan relies on Fife Council's range of established procedures for preventing and detecting fraud and irregularity including a code of conduct for staff, whistleblowing, fraud prevention and fraud response plan. Elected members adhere to the code of conduct of their respective authorities. We assessed these to ensure that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

53. We concluded that SESplan has appropriate arrangements in place for the prevention and detection of fraud and error. We are not aware of any specific issues we require to bring to your attention.

Planning (Scotland) Bill

54. The Planning (Scotland) Bill was introduced to Parliament on 4 December 2017. Section 2 of this Bill will repeal the provisions of the Planning Etc. Scotland Act 2006 Act which established Strategic Development Plan Authorities, including SESplan. Councils will instead be required to determine the scope and flexibility for them to work together in bespoke regional partnerships.

55. Stage 1 of the Bill was concluded in June 2018 and Stage 2 is scheduled to start on 12 September 2018.

56. No details on the transition from SDPAs to the new regional partnerships have been published. Discussions are ongoing across the six member authorities of SESplan on the options and funding models for regional partnership working and these together with the requirements of the Bill will inform the SESplan operating budget for 2019/20.

57. SESplan will be required to meet any statutory requirements of SDPAs until changes as a result of the Bill are determined. The approach taken to date provides a level of assurance that SESplan is actively managing the position and will be in able to manage the transition when the Bill is passed.

Part 5

Value for money



Main judgements

An annual performance report showing progress against key objectives along with actions required in the next year is considered by the Joint Committee. This enables members to monitor performance and hold officers to account on key delivery targets.

Overview of performance targets

58. The Joint Committee receive an annual report in June each year relating to SESplan's performance against the Planning Performance Framework. This report covers the previous year and sets targets for the current year. This enables members to monitor performance and hold officers to account on key delivery targets.

59. In 2017/18 the key objective for SESplan was the submission of the Strategic Development Plan 2 for examination. The Joint Committee approved the Strategic Development Plan 2 for submission to the Scottish Government for examination in June 2017. Examination formally began in August 2017.

60. In addition, SESplan has committed to working with Scottish Government and other Strategic Planning Development Authorities (SDPAs) to develop the roles and remit of regional working partnerships which will replace SDPAs (see paragraph 54).

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

National performance audit reports

61. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2017/18, Audit Scotland published a number of reports were issued which are of direct interest to the Council. These are outlined in [Appendix 3](#).

Appendix 1

Action plan 2017/18

2017/18 recommendations for improvement

No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Remuneration Report</p> <p>The remuneration report reflects the amount paid to officers rather than the amount earned (i.e. it ignores year end pay accruals). This resulted in an understatement of senior employee salaries of £147.</p> <p>Risk</p> <p>The remuneration report is not compiled in line with regulations.</p>	<p>Whilst we accept that the overall error was not material the Authority should ensure that the remuneration report complies with the regulations and includes amounts earned in the year and not just the payments made.</p>	<p>The disclosure arrangements for the Remuneration Report will be reviewed and revised for 2018/19 onwards to ensure compliance with regulations.</p> <p>Finance Operations Manager</p> <p>31 March 2019.</p>
Follow up of prior year recommendations			
b/f	<p>1. Remuneration Report</p> <p>The SDPA Manager post-holder changed during the year and the remuneration report reflects the amounts actually paid to these individuals rather than the amounts earned (it ignores year end pay accruals). This resulted in an overstatement of senior employee salaries of £822 (2.4%)</p> <p>Risk</p> <p>The Authority's remuneration report does not accurately reflect the payments earned by officers.</p>	<p>Whilst we accept that the overall error was not material the Authority should ensure that the remuneration report complies with the regulations and includes amounts earned in the year and not just the payments made.</p>	<p>There has been no change to the way the remuneration report figures are compiled.</p> <p>See point 1 above.</p>
b/f	<p>2. Advertising accounts</p> <p>Although the accounts were available for review in accordance with the regulations they were only advertised as publicly available for 13 working days. The advert should also include</p>	<p>The unaudited accounts should be made publicly available for 15 working days and the name of the engagement lead should be included in the advert.</p>	<p>The 2017/18 accounts were advertised in accordance with the regulations. The available for public inspection period also complied with regulations.</p> <p>Completed</p>



No.	Issue/risk	Recommendation	Agreed management action/timing
-----	------------	----------------	---------------------------------

details of the auditor and whilst the website identified Audit Scotland as the appointed auditor it did not provide the name of the engagement lead, Pearl Tate.

Risk

The Authority does not fully comply with the statutory requirement period for advertising the accounts for public inspection

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. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

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>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>Results – Our work on journals, accounting estimates, accruals, prepayments and significant transactions did not identify any indication of management override.</p> <p>Conclusion – No issues were identified that indicate a management override of controls.</p>
Risks identified from the auditor's wider responsibility under the Code of Audit Practice		
<p>2 Governance and transparency</p> <p>An independent review published in 2016 recommended that Strategic Development Plans should be replaced by an enhanced National Planning Framework.</p> <p>Following a consultation process the Planning (Scotland) Bill was presented to Parliament on 4 December 2017. The Bill proposes the “removal of requirement to prepare strategic development plans” which is the primary function of the Authority. The future of the organisation is therefore uncertain.</p> <p>During any transition period there is a risk of a negative impact on the Authority's governance and performance arrangements.</p>	<p>Review of reports to members on the current position and proposals regarding the future of the Authority.</p> <p>Review of reports to the Authority to monitor the progress of the changes to the planning framework and the impact on the Authority.</p>	<p>Results – We reviewed the reports to members during the year and proposals made. We considered the governance arrangements in place for the year and found that despite reducing staffing levels there was no impact on the Authority's performance in 2017/18 and we found no indications that governance arrangements had been adversely impacted. We will continue to monitor the approach taken as part of our on-going audit work.</p> <p>Conclusion – This risk remains and we will continue to monitor actions taken.</p>

Appendix 3

Summary of national performance reports 2017/18



		2017/18 Reports	
		Apr	
		May	
Common Agricultural Policy Futures programme: further update		Jun	 Scotland's colleges 2017
		Jul	 NHS workforce planning
Self-directed support: 2017 progress report		Aug	
Equal pay in Scottish councils		Sept	
Transport Scotland's ferry services		Oct	 NHS in Scotland 2017
Local government in Scotland: Financial overview 2016/17		Nov	
		Dec	
		Jan	
Early learning and childcare		Feb	
Managing the implementation of the Scotland Acts		Mar	

Local government relevant reports

[Principles for a digital future](#) – May 2017

[Self-directed support: 2017 progress report](#) – August 2017

[Equal pay in Scottish councils](#) – September 2017

[Local government in Scotland: Financial overview 2016/17](#) – November 2017

The Strategic Development Planning Authority for Edinburgh and South East Scotland

2017/18 Annual Audit Report

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

For the latest news, reports and updates, follow us on:



Audit Scotland, 4th Floor, 102 West Port, Edinburgh EH3 9DN
T: 0131 625 1500 E: info@audit-scotland.gov.uk
www.audit-scotland.gov.uk