

Aberdeen City and Shire Strategic Development Planning Authority

Annual Report on the 2010/11 Audit



Prepared for members of the Aberdeen City and Shire Strategic Development Planning Authority and the
Controller of Audit

October 2011

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. It provides services to the Auditor General for Scotland and the Accounts Commission. Together they ensure that the Scottish Government and public sector bodies in Scotland are held to account for the proper, efficient and effective use of public funds.

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Introduction

1. This report summarises the findings from our 2010/11 audit of the Aberdeen City and Shire Strategic Development Planning Authority. The purpose of the annual audit report is to set out concisely the scope, nature and extent of the audit, and to summarise the auditor's opinions (i.e. on the financial statements), conclusions and any significant issues arising. The report is divided into sections which reflect the extent of our public sector audit model.
2. Appendix A is an action plan setting out the high level risk we have identified from the audit. Officers have considered the issue and have agreed to take the specific steps set out in the column headed 'Planned Management Action'. We do not expect all risks to be eliminated or even minimised. What we expect is that the Authority understands its risks and has arrangements in place to manage these risks. Members should ensure that they are satisfied with the proposed management actions and that they have a mechanism in place to assess progress.
3. Audit is an essential element of accountability and the process of public reporting. This report will be published on our website after consideration by the Authority. The information in this report may be used to prepare the annual overview of local authority audits report later this year. The overview report is published and presented to the Local Government and Communities Committee of the Scottish Parliament.
4. The management of the Authority is responsible for preparing financial statements that show a true and fair view and for implementing appropriate internal control systems. Weaknesses or risks identified by auditors are only those which have come to our attention during normal audit work, and may not be all that exist. Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of internal control.

Financial statements

5. The financial statements of the Authority are the means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. It is the responsibility of the Authority to prepare financial statements that provide a true and fair view of its financial position and the income and expenditure for the year.
6. Auditors are required to audit financial statements in accordance with the timescales set by Audit Scotland, which may be shorter than statutory requirements, and give an opinion on:
 - whether they give a true and fair view of the financial position of the Authority and its income and expenditure for the year
 - whether they have been prepared properly in accordance with relevant legislation, the applicable accounting standards and other reporting requirements.
7. We also review and report on, as appropriate, other information published with the financial statements, including the explanatory foreword, statement on the system of internal financial control and the remuneration report. This section summarises the results of our audit of the financial statements.

Audit opinion

8. We gave an unqualified opinion that the financial statements of the Aberdeen City and Shire Strategic Development Planning Authority gave a true and fair view of the state of the affairs of the Authority as at 31 March 2011 and of the income and expenditure for the year then ended.

Legality

9. Through our planned audit work we consider the legality of the Authority's financial transactions. In addition, the Treasurer has confirmed that, to the best of his knowledge and belief, and having made appropriate enquiries of the Authority's management team, the financial transactions of the Authority were in accordance with relevant legislation and regulations. There are no legality issues arising from our audit which require to be brought to members' attention.

Statement on the system of internal financial control

10. A statement on the system of internal financial control is included within the annual financial statements. This sets out the Treasurer's view that he is satisfied that the Authority has a sound system of internal financial control in place and, at this time, there are no material weaknesses or failures identified that could have a material effect on the operations of the Authority.

11. The statement highlights that the Authority operates the financial systems of Aberdeenshire Council and that these systems are subject to review by both the council's internal audit section and the council's external auditor. The Treasurer has taken assurance from this work in forming his opinion on the internal financial control system. The statement complies with accounting requirements and is consistent with the findings of our audit.

Remuneration report

12. We are satisfied that the remuneration report has been prepared in accordance with the Local Authority Accounts (Scotland) Act 1985 and Scottish Government finance circular 8/2011. The disclosures within the 2010/11 financial statements include all eligible remuneration for the relevant Authority officers and elected members.

Accounting issues

Accounts submission

13. The Authority's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. Audited accounts were finalised by the target date of 30 September 2011 and are now available for presentation to members and publication.

Presentational and monetary adjustments to the unaudited financial statements

14. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010 Code). 2011 is the first year that the local authority accounting code is based on international financial reporting standards (IFRS) and this has resulted in a significant change in the way the accounting statements require to be presented.
15. In my 2010/11 Annual Audit Plan I highlighted that *'it is essential that the Authority ensures that its financial statements work programme and templates have been updated to reflect all the relevant changes in presentation and disclosure in the 2010/11 financial statements, in particular those related to the application of IFRS.'* In response, officers confirmed that *'plans are in place to produce IFRS compliant accounts by 30 April 2011. Given the size of the Authority, a separate opening balance sheet and shadow accounts will not be prepared.'*
16. Despite this assurance, the unaudited accounts submitted for audit required significant change to make them compliant with the 2010 Code, improve their presentation and correct a material misstatement (the unaudited accounts included the General Fund balance as a creditor and as a result creditors and the amount invested in Aberdeenshire Council's loans fund were overstated by £104,000). There was no impact on the Comprehensive Income and Expenditure Statement surplus/deficit or the amount due to be returned to constituent authorities.

Refer action plan no. 1

Outlook

Audit appointment for 2011/12

17. Audit appointments are made by the Accounts Commission, either to Audit Scotland staff or to private firms of accountants, for a five year term. 2010/11 is the last year of the current audit appointment and we would like to thank officers and members for their assistance during the last three years. The procurement process for the next five years was completed in May 2011. From next year (2011/12) the Accounts Commission have appointed a new audit team from Deloitte to audit the Authority.

Financial position

18. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
19. As auditors we consider whether audited bodies have established adequate arrangements and examine:
 - financial performance in the period under audit
 - compliance with any statutory financial requirements and financial targets
 - ability to meet known or contingent, statutory and other financial obligations
 - responses to developments which may have an impact on the financial position
 - financial plans for future periods.
20. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

21. The Authority's net expenditure in 2010/11 was £176,000, an underspend of £124,000 (41%) against budget due mainly to reduced staff costs. All of this underspend was returned to constituent authorities and this amount is netted of the requisitions and non-specific grant income figure included in the Comprehensive Income and Expenditure Statement.
22. As at 31 March 2011, the Authority held a general fund balance of £104,000 (£104,000 at 31 March 2010). This balance will be used to support future years' expenditure and as a contingency for unexpected events or emergencies.

Outlook

2011/12 budget

23. The Authority, like all public sector organisations, faces a very challenging financial climate. The Authority agreed its 2011/12 budget in March 2011 at £200,000, a reduction of £100,000 (33%) on the 2010/11 level. The majority of this relates to staff costs which have been reduced in line with the 2010/11 costs incurred. In addition, the Authority has worked with other local authorities to explore ways in which services can be delivered at a lower cost through closer working arrangements. It is estimated that sharing office space will lead to an annual saving of approximately £8,000 for the Authority.

Corporate governance

Introduction

24. In this section we comment on key aspects of the Authority's governance arrangements during 2010/11.

Overview of arrangements in 2010/11

25. Corporate governance is concerned with structures and processes for decision making, accountability, control and behaviour at the upper levels of the organisation. Two years ago we highlighted that the Authority has a responsibility to put arrangements in place for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice. We were advised that the Authority was developing its own corporate governance arrangements and that they would be in place during 2009/10. This did not happen, however, and the Authority continues to rely on the arrangements in place within constituent authorities to ensure that it meets its corporate governance responsibilities.

Working of the Authority Board

26. Effective scrutiny is central to good governance, with a significant role for members to scrutinise performance, hold management to account on service delivery and support the modernisation agenda. The Authority board has oversight of the financial resources and receives budget monitoring reports at each meeting. The board is generally well attended by members and officers who respond to queries.

Systems of internal financial control

27. It is the responsibility of the Authority's management to maintain adequate financial systems and associated internal controls. The auditor evaluates significant internal financial control systems for the purpose of giving an opinion on the financial statements and as part of a review of the adequacy of governance arrangements.
28. As noted above, the Authority's financial transactions are processed through Aberdeenshire Council's financial systems. Our review of these systems was conducted as part of the audit of Aberdeenshire Council, supplemented by specific audit work on the Authority's financial statements. Overall, there are no material issues of concern in relation to the operation of the main financial systems.

29. Aberdeen City and Shire Strategic Development Planning Authority is set up as a cost centre within Aberdeenshire Council's financial ledger and not as a separate organisation. In our view, there is a risk that the Authority's transactions may not be properly reflected within the financial ledger, resulting in the misstatement of the Authority's financial position within the financial statements. As part of our 2010/11 audit we requested and received written confirmation from the Treasurer that all material agreements and transactions undertaken by the Authority were properly reflected in the 2010/11 financial statements. In addition, the Treasurer has confirmed that the position will continue to be monitored and corrective action taken as necessary.

Appendix: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para. No.	Risk Identified	Management Response and Planned Action	Responsible Officer	Target Date
1	16	<p>Financial statements</p> <p>The unaudited accounts submitted for audit required significant change to make them compliant with the 2010 Code, improve their presentation and correct a material misstatement.</p> <p>Risks: potential misstatement of the financial position of the Authority. If material amounts are involved, the accounts may be qualified.</p> <p>Failure to prepare accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom may also result in the accounts being qualified.</p>	<p>The Annual Accounts process is currently being reviewed to consider how this can be improved. This will include a review of staffing and a need for further training in this area.</p>	Treasurer	31 March 2012