



**Edinburgh and South East Scotland
Strategic Development Planning Authority
(SESplan)**

**Annual Report on the Audit to SESplan
and the Controller of Audit
2010/11**

October 2011



Edinburgh and South East Scotland Strategic Development Planning Authority (SESPlan)

Annual Report on the Audit to SESplan and the Controller of Audit 2010/11

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Executive summary

Financial statements

We are pleased to report that our independent auditors' report contains an unqualified audit opinion on the financial statements for the year ended 31 March 2011. We also certify that the accounts have been properly prepared in accordance with applicable law, accounting standards and other reporting requirements.

SESplan prepared its financial statements in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010/11 Code). The 2010/11 Code is the first code based on international financial reporting standards (IFRSs). The move to an IFRS based Code resulted in a number of significant changes in accounting practice. SESplan was required to restate its 2009/10 financial statements to provide prior year comparatives in the 2010/11 financial statements. We have reviewed the 2010/11 restatement and are satisfied that these are appropriate for use as comparative amounts for the 2010/11 financial statements.

SESplan reported a surplus for the year of £2,251 (2009/10: £9,450). The total usable reserves balance brought forward of £129,116 at 1 April 2010 increased to £134,152 at 31 March 2011. Expenditure during the year primarily related to staffing and accommodation costs. This was funded by contributions from the constituent authorities.

Governance

Fife Council's Audit and Risk Management Services provide an internal audit function to SESplan. During 2009/10, they carried out a review of SESplan's governance arrangements. The review identified a number of areas of improvement for SESplan to address and an action plan was developed to take these forward. In response to the recommendations made SESplan are undertaking an interim project review covering governance documentation including; the Scheme of Delegation, Financial Rules and administration agreements. While we are aware that SESplan focused resources on creating the Development plan, we are disappointed to find that greater progress has not been made to address the recommendations included with Fife Council's Audit and Risk Management Service's report as well those made by ourselves.

Conclusion

This report concludes our audit of SESplan for 2010/11. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK and Ireland) and Ethical Standards.

This report has been discussed and agreed with the SESplan Treasurer. We would like to thank all management and staff for their co-operation and assistance during our audit.

Scott-Moncrieff
October 2011

Introduction

- 1 This report summarises the findings from our 2010/11 audit of the Edinburgh and South East Scotland Strategic Development Authority (SESplan). The main elements of our audit work in 2010/11 have been:
 - Audit of the financial statements, including a review of the Statement on the System of Internal Financial Control
 - Review of governance arrangements, internal financial controls and financial systems
- 2 The key findings arising from our work are summarised in this annual report.
- 3 This report is addressed to SESplan and the Controller of Audit and will be published on Audit Scotland's website, www.audit-scotland.gov.uk.

Financial statements

Introduction

- 4 Financial statements are the principal means of accounting for the stewardship of the resources made available to SESplan. In this section we summarise the key outcomes from our 2010/11 audit of SESplan's financial statements.

Our responsibilities

- 5 We audit the financial statements and give an opinion on:
 - whether they give a true and fair view, in accordance with law and the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11 (the 2010/11 Code) of the state of affair of SESplan and its income and expenditure for the year then ended
 - whether they have been properly prepared in accordance with international financial reporting standards as adopted by the European Union, as interpreted and adapted by the 2010/11 Code
 - whether they have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003
 - whether the part of the remuneration report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985
 - whether the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements
- 6 We also are required to report by exception on certain matters including, for example, whether the statement on the system of internal financial control does not comply with the 2010/11 Code.

Independence

- 7 International Standard on Auditing 260 – *Communication of Audit Matters with those Charged with Governance* – requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
- 8 We provided no additional services to SESplan during the year and can confirm that we have complied with the Auditing Practices Board Ethical Standard 1 – Integrity, Objectivity and Independence. In our professional judgement the audit process has been independent and our objectivity has not been compromised.

Legality

- 9 We have planned and performed our audit recognising that non-compliance with statute or regulations may materially impact on the financial statements. Our audit procedures included the following:

- Reviewing minutes of relevant meetings
- Enquiring of senior management and the organisation's solicitors the position in relation to litigation, claims and assessments
- Performing detailed testing of transactions and balances

10 We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.

Responsibility for the Statement of Accounts

11 It is the responsibility of SESplan and the Treasurer to prepare the financial statements in accordance with the proper practices set out in the 2010/11 Code. This means:

- Preparing financial statements which give a true and fair view the financial position of SESplan and its income and expenditure for the year then ended
- Maintaining proper accounting records which are up to date
- Taking steps for the prevention and detection of fraud and other irregularities

Overall conclusion

12 Our audit report is included on pages 19 and 20 of the annual accounts and is addressed to members of SESplan and the Accounts Commission for Scotland. The report was issued on 29 September 2011 and is unqualified. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

13 SESplan is required under Regulation 4 of the Local Authority Accounts (Scotland) Regulations 1985 to submit a copy of an abstract of their accounts to the Controller of Audit by 30 June. We are pleased to confirm that SESplan's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June.

14 The Local Authority Accounts (Scotland) Regulations 1985 also require the audited accounts and annual audit report to be laid before a meeting of the authority no later than two months of receipt of documents. We recommend that SESplan ensure that arrangements are in place to comply these Regulations for 2010/11 by ensuring both the audited accounts and this report are presented to the Joint Committee.

Action plan point 1

Format of the Accounts

15 In accordance with the designation orders and associated statutory guidance, SESplan meets the definition of a joint committee under section 106 of the Local Government (Scotland) Act 1973. Section 106 extends to the accounts and audit provision of the 1973 Act to joint committees. SESplan is therefore required to produce separate accounts which comply with the 2010/11 Code.

- 16 The 2010/11 Code specifies the principles and practices of accounting required to prepare a Statement of Accounts which give a true and fair view of the financial position and transactions of a local authority organisation.
- 17 The 2010/11 Code is the first code based on international financial reporting standards (IFRSs). Previously, SESplan prepared its accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice (the SORP). The SORP was based in UK Generally Accepted Accounting Practices. The requirement to comply with the Code has resulted in a number of significant changes in accounting practice.
- 18 In 2011, SESplan was also required for the first time to prepare a Remuneration Report as part of the annual statutory accounts (under the Local Authority Accounts (Scotland) Amendment Regulations 2011).
- 19 As part of our 2010/11 audit we considered the arrangements SESplan had in place to ensure compliance with the requirements of the Code and the Local Authority Accounts (Scotland) Amendment Regulations. Overall we concluded that SESplan has complied with those requirements. The key findings arising from our audit of the financial statements are summarised in the sections below.

Audit Adjustments

- 20 We identified no major errors or weaknesses during our audit. Adjustments to the financial statements arising from the audit related mainly to changes in disclosure and presentation and have been agreed with the Treasurer.

Key areas of audit focus and significant findings

- 21 We are required by international auditing standards to report to SESplan the main issues arising from our audit of the financial statements. The most significant issues are noted below.

Transition to International Financial Reporting Standards

- 22 As noted in paragraph 17, in 2010/11 SESplan was required to comply with the Code. The 2010/11 Code is the first code based on international financial reporting standards (IFRSs). The move to an IFRS based Code resulted in a number of significant changes in accounting practice. SESplan was required to restate its 2009/10 financial statements to provide prior year comparatives in the 2010/11 financial statements. It was also required to prepare an opening IFRS based balance sheet as at 1 April 2009. We have audited SESplan's restated 2009/10 financial statements and opening balance sheet as at 1 April 2009. Overall we concluded that the restated financial statements were appropriate for use as comparative amounts for SESplan's 2010/11 financial statements.

Remuneration Report

- 23 SESplan is now required to prepare a Remuneration Report as part of its annual statutory accounts, as set out in the Local Authority Accounts (Scotland) Amendment Regulations 2011.

The Remuneration Report is a statement in its own right rather than a supplementary note to the accounts and discloses, for example, the number of employees whose remuneration was in excess of £50,000. The Scottish Government has published finance circular 8/2011 "*Local Authority Accounts – The Remuneration Report*" which assists local authorities bodies in implementing the new requirements. Certain disclosures in the remuneration report are subject to audit. We have reviewed the relevant disclosure and confirmed that they have been properly prepared in accordance with the applicable regulations.

Employee benefits

- 24 The Code requires SESplan to account for employee benefits in accordance with international accounting standards. SESplan is also required to comply with statutory guidance issued in finance circular 3/2010 "*Statutory guidance on accounting for short term accumulating compensated absences*". Employee benefits are all forms of consideration given by an authority in exchange for services rendered by employees. Authorities are required to recognise the cost of providing employee benefits in the period in which the benefit is earned by the employee, rather than when it is paid or payable. It includes short term benefits, such as untaken annual leave, post employment benefits, such as retirement benefits and termination benefits, such as early retirement or voluntary redundancy schemes.
- 25 Short-term benefits include items such as holiday pay, flexi-time leave and time off in lieu. A liability for short-term benefits of £818 was included in the 2009/10 restated financial statements. As at 31 March 2011, this had increased to £3,603. In accordance with the statutory guidance (finance circular 3/2010), SESplan has made an adjustment to exclude the value of this charge when determining the movement on the general fund for the financial year. The charge has been transferred to an employee statutory adjustment account. During our audit we reviewed SESplan's approach to estimating this liability and concluded that the approach was in accordance with applicable guidance.

Internal Audit

- 26 Effective co-ordination between internal audit and external audit is essential in order to minimise duplication of effort and maximise the benefits of audit. Fife Council's Audit and Risk Management Services provides internal audit function to SESplan. As required by the Code of Audit Practice, we have established appropriate working arrangements with Fife Council's internal audit function.
- 27 In accordance with the Code of Audit Practice and International Standard on Auditing 610 – *Considering the work of internal audit, "the external auditor should perform an assessment of the internal audit function when internal auditing is relevant to the external auditor's risk assessment"*. Overall we concluded that reliance could be placed on the work of internal audit where appropriate.

Accounting and internal control systems

- 28 During our audit we reviewed the key financial systems in place within the organisation. We found that SESplan does not have an authorised signatories list in place containing officers who can

approve expenditure in the year. An authorised signatory should be developed to ensure that signatories authorising expenditure are appropriate.

Action plan point 2

- 29 Overall we found the systems of internal financial control reviewed to be of a good standard with controls operating at an adequate or effective level.

Statement on the System of Internal Financial Control

- 30 SESplan has published a statement on the system of internal financial control within the 2010/11 statement of accounts. The statement provides an overview of the key elements of the organisation's governance arrangements and systems of internal financial control.

- 31 As part of our audit work we are required to review the information disclosed in the statement and assess whether SESplan's opinion on the effectiveness of its internal financial controls is consistent with our understanding of the internal financial control framework.

- 32 Overall the statement is consistent with our knowledge and understanding of the internal financial control framework operating at SESplan.

Financial Position

- 33 SESplan reported a surplus for the year of £2,251 (2009/10: £9,450). The total usable reserves balance brought forward of £129,116 at 1 April 2010 increased to £134,152 at 31 March 2011. Expenditure during the year primarily related to staffing and accommodation costs. This was funded by contributions from the constituent authorities.

Governance

- 34 Governance is about direction and control of organisations. It is concerned with structures and processes for decision making and accountability. Good governance can be defined as “*the way a local authority operates is based on sound decision-making and effective processes are in place to support these decisions*”.
- 35 This section sets out the main findings from our review of SESplan’s corporate governance arrangements.

Governance Arrangements

- 36 The Designation Order which formally constituted the Edinburgh and South East Scotland Strategic Development Planning Authority (SESplan) came into force on 25 June 2008. In June 2008 the SESplan joint committee was formally established. The Joint Committee comprises twelve councillors, two from each of the six constituent authorities:
- Fife Council
 - City of Edinburgh
 - East Lothian Council
 - Midlothian Council
 - Scottish Borders Council
 - West Lothian Council
- 37 As a group, these councils have a statutory duty to work together to prepare, and keep under review, a strategic development plan for the Edinburgh city region. The Joint Committee has an advisory role with decisions made requiring ratification from constituent Council’s.
- 38 During 2009/10, Fife Council’s internal audit service carried out a review of SESplan’s governance arrangements. The review identified a number of areas of improvement for SESplan to address. The review also notes that SESplan has not formally agreed arrangements for obtaining and funding its administrative support (financial, HR and legal services) through service level agreements, including a scheme for monitoring and reporting the provision and costs. We also highlighted this in our 2008/09 annual audit report to SESplan and the Controller of Audit.
- 39 We are disappointed to find that the Joint Committee has yet to implement many of the recommendations made either by internal or external audit. The recommendations were viewed as areas where governance could be improved and we recommend that SESplan address these as a matter of urgency.

Risk management

- 40 An important feature of a robust system of internal control is a developed and integrated approach to risk management. Effective risk management will deliver an appropriate balance between risk

and control, more effective decision making, better use of limited resources and greater innovation.

- 41 SESplan has developed a risk register which provides a record of the key risks facing the organisation. At its meeting in March 2011, the Joint Committee approved its approach to risk management which, in summary, requires the Strategic Development Plan Manager to present an annual review and update the risk register for agreement of the Project Board. Following this review, a report will be presented to the Joint Committee, no later than December each year, on the risk management arrangements.

Prevention and detection of fraud and irregularity

- 42 The integrity of public funds is at all times a matter of concern. As external auditors we are required to consider the arrangements made by management for the prevention and detection of fraud and irregularities. Our responsibilities in this area are addressed in a number of ways:
- Our systems based audit approach to the major accounting systems is planned so as to provide a reasonable expectation of detecting material misstatements resulting from fraud or error
 - We focus on specific areas of high risk for potential fraud and irregularity and review the control arrangements in place in these areas
 - We review the Audit Scotland Technical Bulletins with regard to fraud reports and ensure that the authority has adequate arrangements in place to stop similar frauds occurring
 - We examine the key governance documents issued by the organisation to ensure that they deal adequately with fraud and corruption and provide a framework for exercising strong internal control
- 43 We have performed a review of the arrangements for the prevention and detection of fraud, irregularity and corruption in place at SESplan. Our review concluded that the arrangements are satisfactory to prevent and detect fraud and other irregularities.

Performance

- 44 The Joint Committee has developed a Development Plan Scheme (DPS) which outlines how the organisation will prepare and maintain the strategic development plan. The DPS includes a timetable for the creation of the strategic development plan. Progress on the implementation of the DPS is monitored by the Joint Committee.
- 45 On 26 July 2011, the Joint Committee approved the Proposed Plan, Action Programme, updated Environment Report and Addendum and draft Equalities and Human Rights Impact Assessment for ratification by the 6 Member Authorities. It is envisaged that following ratification from the constituted authorities, the proposed plan will be published on 7 November 2011.

Appendix 1: Action Plan

Our action plan details the key weaknesses and opportunities for improvement that we have identified during this review. To assist SESplan in assessing the significance of the issue raised and prioritising the action required to address it, the recommendation has been rated.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist.

Our grading structure helps management assess the significance of the issues raised and prioritise the action required to address them. The grading structure is as follows:

Grade 5	Very high risk exposure - Major concerns requiring Joint Committee attention.
Grade 4	High risk exposure - Material observations requiring management attention.
Grade 3	Moderate risk exposure - Significant observations requiring management attention.
Grade 2	Limited risk exposure - Minor observations requiring management attention
Grade 1	Efficiency / housekeeping point.

Action Plan Ref	Para Ref	Action Plan Point	Recommendation and Rating	Management comments	Responsible Officer	Agreed Completion Date
1	14	The Local Authority Accounts (Scotland) Regulations 1985 require the audited accounts and annual audit report to be laid before a meeting of the authority no later than two months of receipt of documents.	We recommend that SESplan ensure that arrangements are in place to comply the regulations for 2010/11 by ensuring both the audited accounts and this report are presented to the Joint Committee. Priority 4	The audited accounts and annual audit report will be presented to the Joint Committee on 5 December 2011.	Strategic Development Plan Manager	5 December 2011
2	28	SESplan does not have an authorised signatories list in place containing officers who can approve expenditure in the year.	An authorised signatory list should be developed to ensure that signatories authorising expenditure are appropriate. Priority 3	The Strategic Development Plan Manager will liaise with Fife Council Financial Services to establish an authorised signatories list for SESplan.	Strategic Development Plan Manager	31 March 2012



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