



Edinburgh and South East Scotland Strategic Development Planning Authority

Annual report on the 2011/12 audit



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

October 2012

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Key messages

2011/12 audit findings

In 2011/12 we have audited the financial statements and looked at aspects of governance within the Edinburgh and South East Scotland Strategic Development Planning Authority (SESplan). This report sets out our main findings.

Overall we found the stewardship of SESplan during the year to be satisfactory. The main conclusions and outcomes from the audit are highlighted below:

- an unqualified audit opinion has been issued on the financial statements for 2011/12
- final accounts preparation procedure and working papers were good and this enabled the audit to progress smoothly
- many aspects of a sound corporate governance framework are in place.

The Statement on the System of Internal Financial Control for the year 2011/12 included in the accounts complies with accounting requirements and is not inconsistent with our audit findings. SESplan operated the corporate financial systems of Fife Council. As external auditor of the council we were able to take assurance from our work on these systems.

Outlook

Looking ahead, the Authority, like all public sector organisations faces a challenging financial climate. Central funding for Strategic Development Planning Authorities is reducing and greater reliance will be placed on funding from constituent authorities at a time when funding is also reducing for those organisations.

Introduction

1. This report is the summary of our findings arising from the 2011/12 audit of the Edinburgh and South East Scotland Strategic Development Planning Authority (SESplan). The nature and scope of the audit were outlined in the Audit Plan submitted to management in April 2012, and follow the requirements of the Code of Audit Practice prepared by Audit Scotland in May 2011. The purpose of the annual audit report is to summarise the auditor's opinions (i.e. on the financial statements) and conclusions, and to report any significant issues arising.
2. Appendix A is an action plan setting out the high level risks we have identified from the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "planned management action". We do not expect all risks to be eliminated or even minimised. What we expect is that SESplan understands its risks and has arrangements in place to manage these risks. Members of the Joint Committee should ensure that they are satisfied with the proposed management action and have a mechanism in place to assess progress.
3. This report is addressed to members and the Controller of Audit and will be published on our website after consideration by the Joint Committee.
4. The management and officers of the authority are responsible for the management and governance of the organisation. As external auditors we review and report on the arrangements in place and seek to gain assurance that:
 - the financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed
 - the authority's system of recording and processing transactions provides an adequate basis for the preparation of the financial statements and the effective management of assets and interests
 - the authority has adequate governance arrangements in place which reflect the three fundamental principles of openness, integrity and accountability
 - the systems of internal control provide an appropriate means of preventing or detecting material misstatement, error, fraud or corruption
 - the authority has proper arrangements for securing best value in its use of resources.
5. Weaknesses or risks identified by auditors are only those which have come to their attention during their 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 responsibility to address the issues raised and to maintain an adequate system of control.

Financial statements

6. Audited bodies' financial statements are an essential part of accounting for their stewardship of the resources made available to them and their performance in the use of those resources.
7. 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 audited bodies and their expenditure and income
 - whether they have been properly prepared in accordance with relevant legislation, the applicable accounting framework and other reporting requirements.
8. Auditors review and report on, as appropriate, other information published with the financial statements, including the treasurer's report, statement on internal financial control and the remuneration report. This section summarises the results of our audit on the financial statements.

Audit opinion

9. We have given an unqualified opinion on the financial statements of SESplan for 2011/12, concluding that the financial statements:
 - give a true and fair view, in accordance with applicable law and the 2011/12 Code of Practice on Local Authority Accounting in the United Kingdom ('the Code'), of the state of affairs of the authority as at 31 March 2012 and of the income and expenditure of the authority for the year then ended
 - have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

10. We have also stated that in our opinion:
 - the part of the remuneration report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 1985
 - the information given in the Treasurer's Foreword is consistent with the financial statements.

Legality

11. 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 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.

12. The Local Authority Accounts (Scotland) Regulations 1985 require the audited accounts be laid before a meeting of the authority no later than two months after receipt of the documents. There is currently no meeting of the SESplan Joint Committee planned. SESplan should ensure that future arrangements comply with the regulations.

Action plan no. 1

Statement on System of Internal Financial Control

13. Scottish local authorities are required by the 2011/12 Code to consider voluntarily carrying out a review of the effectiveness of its system of internal control and report on that review in an Annual Governance Statement within their Statement of Accounts. The Code requires any authority which does not adopt this approach to prepare a Statement on the System of Internal Financial Control within their Statement of Accounts.
14. SESplan has included a Statement on the System of Internal Financial Control within their Statement of Accounts. The 2011/12 statement highlights the view of the Treasurer that reasonable assurance can be placed on the adequacy and effectiveness of the authority's financial systems.
15. The statement complies with the accounting requirements and is not inconsistent with the findings of our audit. We were satisfied with the adequacy of the process put in place by the authority to obtain assurances on the systems of internal financial control.

Remuneration report

16. 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 2011/12 financial statements include all eligible remuneration for the relevant joint committee officers and elected members.

Accounting issues

17. Local authorities in Scotland are required to follow the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 ('the Code') which constitutes proper accounting practice for the purposes of section 12 of the Local Government Scotland Act 2003.
18. We are satisfied that the financial statements have been prepared in line with the requirements of the Code and there have not been any significant variations.

Accounts submission

19. The authority's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. Final accounts preparations and working papers were generally good and this enabled the audit to progress smoothly.

Financial position

20. Audited bodies are responsible for conducting their affairs and for putting in place proper arrangements to ensure that their financial position is soundly based.
21. Auditors 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.
22. These are key areas in the current economic circumstances. This section summarises the financial position and outlook for the organisation.

Financial results

23. The authority's financial statements show a deficit of £92k on the provision of services for 2011/12 against a budgeted deficit of £117k. The favourable variance was largely due to lower than expected printing and publication costs for the Proposed Plan, and reduced accommodation costs following an office move in May 2011.
24. Expenditure during the year primarily related to employee costs, accommodation costs and the publication of the Proposed Development Plan and was offset by the requisitions from the constituent councils. This resulted in net general fund expenditure of just over £90k which resulted in the usable reserves balance reducing from £134k as at 1 April 2011 to £44k at 31 March 2012.
25. The authority's balance sheet as at 31 March 2012 reflected net assets of £38k, a reduction of £92k over the previous year mainly due to the reduction in the useable reserves and the associated impact on the balance held in Fife Council's Loans Fund. This has been off-set by the movement of £2k in the accrual in respect of employees' untaken annual and flexi leave at year-end.

Outlook

2012/13 budget

26. The proposed operating budget for 2012/13 was approved by the Joint Committee in December 2011 for ratification by the constituent authorities. The Proposed Development Plan has now been submitted to Scottish Ministers and 2012/13 budgeted costs include costs for the Examination phase.

27. Government start up funding supplied to Strategic Development Planning Authorities (SDPA) has been spread over the financial years since the SDPA was set up in 2008 but is expected to be fully utilised by 2012/13. Requisitions from constituent authorities are set to increase from £40k to £49k for each authority in 2012/13 in order to fund future costs.
28. The authority, like all public sector organisations, faces a very challenging financial climate with constraints on expenditure likely to increase significantly as the Government seeks to reduce its debt burden. This will impact not only on the authority's expenditure but that of the partner authorities and SESplan will need to monitor the impact on the progress of the Strategic Development Plan for the area.

Governance and accountability

29. The three fundamental principles of corporate governance – openness, integrity and accountability – apply to all audited bodies, whether their members are elected or appointed, or whether they comprise groups of people or an individual accountable officer.
30. Through its chief executive or accountable officer, each body is responsible for establishing arrangements for ensuring the proper conduct of its affairs including the legality of activities and transactions, and for monitoring the adequacy and effectiveness of these arrangements. Audited bodies usually involve those charged with governance (including audit committees or similar groups) in monitoring these arrangements.
31. Consistent with the wider scope of public audit, auditors have a responsibility to review and report on audited bodies' corporate governance arrangements as they relate to:
 - corporate governance and systems of internal control
 - the prevention and detection of fraud and irregularity
 - standards of conduct and arrangements for the prevention and detection of corruption.
32. In this part of the report we comment on key areas of governance.

Corporate governance

Processes and committees

33. The Joint Committee meets three times each year to consider reports and issues such as budget approval, budgetary control and performance. The Joint Committee comprises twelve councillors, two from each of the six constituent authorities:
 - Fife Council
 - City of Edinburgh Council
 - East Lothian Council
 - Midlothian Council
 - Scottish Borders Council
 - West Lothian Council

Support services provided by constituent councils

34. Support services for the authority are provided by the constituent councils, such as Fife Council providing financial and HR services, and East Lothian Council and Scottish Borders Council providing legal services during 2011/12. Constituent authorities and SESplan have agreed that at the present time the constituent authorities will not recharge for the services provided.

35. Previous external and internal audit reports have recommended that formal arrangements be put in place for obtaining and funding SESplan's administrative support through Service Level Agreements (SLAs). It is the view of SESplan's project board that establishing SLAs is not a priority given the scale of resources involved. This situation should continue to be kept under review.

Refer action plan no. 2

Internal control

36. 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 been able to take assurance from this work.

Internal Audit

37. Internal audit produced a report on the governance arrangements in place at SESplan in November 2010. This report highlighted a number of areas for improvement, including the need for the authority to review its governance arrangements and Financial Rules.
38. SESplan carried out a review of its governance arrangements during 2011, and a revised Constitution, Scheme of Delegation and Financial Rules were agreed by the Joint Committee in December 2011. This review addressed some of the issues raised in their initial governance review.
39. Internal audit carried out a follow up review of SESplan's governance arrangements in 2012. Although no formal follow up report has been issued by internal audit, the internal audit manager has advised us that there were no significant issues to report.

Prevention and detection of fraud and irregularities

40. SESplan operates under the relevant policies of Fife Council and these have been reviewed as part of the council wide audit and found to be satisfactory. We are not aware of any specific issues that we need to identify in this report.

Standards of conduct and arrangements for the prevention/ detection of bribery and corruption

41. Audited bodies are responsible for ensuring that their affairs are managed in accordance with proper standards of conduct and have proper arrangements in place for implementing and monitoring compliance with standards and codes of conduct, standing orders and financial instructions. Auditors consider whether bodies have adequate arrangements in place. We are not aware of any specific issues that we need to identify in this report.

Best Value, use of resources and performance

42. Audited bodies have a specific responsibility to ensure that arrangements have been made to secure Best Value.
43. Auditors of local government bodies also have a responsibility to review and report on the arrangements that specified audited bodies have made to prepare and publish performance information in accordance with directions issued by the Accounts Commission.
44. As part of their statutory responsibilities, the Auditor General and the Accounts Commission may procure, through Audit Scotland, examinations of the use of resources by audited bodies and publish reports or guidance. Auditors may be requested from time to time to participate in:
 - a performance audit which may result in the publication of a national report
 - an examination of the implications of a particular topic or performance audit for an audited body at local level
 - a review of a body's response to national recommendations.
45. During the course of their audit appointment auditors should also consider and report on progress made by audited bodies in implementing the recommendations arising from reviews in earlier years.

National performance reports

46. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland.

Modernising the planning system

47. A report on the planning system in Scotland was issued in September 2011. The report was an assessment of the functioning of the recently introduced modernisations to the Scottish planning system, including strategic development planning authorities, and assessed whether the recent reform and modernisation was making the system more economic, efficient and effective. The recommendations in the report which are relevant to Strategic Development Planning Authorities included:
 - monitor progress against key milestones to ensure any delays are minimised
 - agree resource requirements with constituent councils and put in place formal arrangements or protocols to support this

- work with key agencies to develop a shared understanding of roles, responsibilities and expectations
 - ensure processes are in place to enable and support better and more creative engagement with community councils and the wider community.
48. The report was considered by the SESplan Joint Committee at its meeting in December 2011. SESplan recognised that each of the recommendations was relevant and they had already been identified as needing addressed, or had already been addressed, through ongoing work.

Appendix A: action plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para No	Risk Identified	Planned Management Action	Responsible Officer	Target Date
1	12	<p>The Local Authority Accounts (Scotland) Regulations 1985 require the audited accounts be laid before a meeting of the authority no later than two months after receipt. There is currently no meeting of the Joint Committee planned.</p> <p>Risk: the authority is not complying with the requirements of the 1985 regulations</p>	<p>As the meeting of the Joint Committee originally scheduled for December has been cancelled, the audited accounts will be circulated electronically, along with various other agenda items so that the Joint Committee have an opportunity to see and comment on the audited accounts within 2 months of receipt.</p>	Ian Angus, SDPA Manager	Nov 2012
2	35	<p>There are no formal Service Level Agreements (SLAs) in place between SESplan and member authorities for the support services provided by the member authorities. SESplan's project board has decided that the establishment of SLAs is not a priority given the scale of resources involved.</p> <p>Risk: service provision may not adequately meet the needs of the authority and may not support continuous improvement and best value.</p>	<p>The quality & value of service provision and the potential need for SLAs will be kept under review by the SDPA Manager and Project Board.</p>	Ian Angus, SDPA Manager	December 2012

