

Final Report to the Authority  
and the Controller of Audit on  
the 2013/14 Audit



24 September 2014

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5 September 2014

Dear Sirs

We have pleasure in setting out in this document our final report to the Members of Aberdeen City and Shire Strategic Development Planning Authority ("SDPA") for the year ended 31 March 2014, for discussion at the meeting scheduled for 24 September 2014. This report covers the principal matters that have arisen from our audit for the year ended 31 March 2014.

In summary:

- The major issues, which are summarised in the Executive Summary, have now been largely addressed and our conclusions are set out in our report.
- In the absence of unforeseen difficulties, management and we expect to meet the agreed audit and financial reporting timetable.

We would like to take this opportunity to thank the management team for their assistance and co-operation during the course of our audit work.

Yours faithfully



Jim Boyle  
Senior Statutory Auditor

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*We would like to take this opportunity to thank the team from Aberdeenshire Council for their assistance and co-operation during the course of our audit work*



# 1. The big picture

## We anticipate issuing an unmodified audit opinion

### An overview of our audit plan:

- Materiality: £8,500 (2012/13: £5,300). This has increased due to gross expenditure increasing from £107,000 in 2012/13 to £170,000 in 2013/14.
- Threshold for reporting misstatements: £170 (2012/13: £100).
- International Standards on Auditing require us to identify and assess the risk of material misstatement and to identify areas of risk that will require focussed consideration. The following are identified significant risks: completeness of expenditure, revenue recognition, management override of controls and use of Aberdeenshire Council's payments ledger.
- **Fully substantive audit** - We have not placed any reliance on internal controls and our audit work was fully substantive. We assessed the design and implementation of controls as part of our planning procedures, to assess the sufficiency of the control environment governing the production of financial information.

### Audit work

- No material audit adjustments or disclosure deficiencies identified. We have not identified any significant deficiencies in internal control.
- We did not identify any instances of actual, alleged or suspected fraud that have not already been reported to you.
- A draft copy of the representation letter to be signed on behalf of the Authority has been circulated separately.

### Annual report

- We believe the Explanatory Foreword by the Treasurer is consistent with the financial statements and is in line with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (the Code).

Our work is substantially complete and we remain on timetable to issue an unmodified audit opinion.

We have the following principal matters to complete:

- Our review of events since 31 March 2014
- Approval of financial statements and receipt of signed representation letter from the Authority

We will report to you in writing in respect of any modifications to the findings or opinions contained in this report that arise on completion of these matters.

## 2. Introduction

### Scope, nature and extent of audit

Our overall responsibility as external auditor of the SDPA is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.

The special accountabilities that attach to the conduct of public business, and the use of public money, means that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements and associated documents such as governance statements, but providing a view also, where appropriate, on matters such as regularity (or legality), propriety, performance and use of resources in accordance with the principles of Best Value and 'value for money'.

Our core audit work as defined by Audit Scotland comprises:

- Providing the Independent Auditor's Report on the financial statements;
- Providing the annual report on the audit to those charged with governance;
- Providing reports to management, as appropriate, in respect of the auditor's corporate governance responsibilities in the Code (including auditors' involvement in NFI); and
- Submit fraud returns, including nil returns, to Audit Scotland where appropriate.

This annual report forms the basis of our reporting to those charged with governance for the SDPA during 2013/14.

In addition, we have submitted a nil fraud return to Audit Scotland on 31 May 2014.

# 3. Significant audit risks

## Completeness of Expenditure

### Nature of risk

The Authority, like all public sector organisations, faces a very challenging financial climate. The Authority agreed its 2013/14 budget in March 2013 at £206,000, an increase £40,000 (20%) on the 2012/13 level. The majority of this relates to staff costs which have been increased on the assumption that the complement of dedicated staff would remain at the current position of one Manager and one Planner for the period following a reduction in 2012/13. There is a risk that material misstatement due to fraudulent financial reporting may arise from the manipulation of expenditure recognition. This may be by deferring expenditure to a later period or not recognising expenditure in the correct financial period.

### Audit work performed to address the significant risk

We have reviewed the methods applied to monitor and report on performance against budget to the Authority.

We have performed year-end procedures including substantive analytical review and cut-off testing to confirm that expenditure was incurred in accordance with the Authority's procedures and the 2013/14 Code and has been allocated to the correct period.

	Budget (£)	Actual (£)
Employee Costs	93,000	95,000
Supplies and Services	87,000	63,000
Other Costs	26,000	12,000
<b>Total</b>	<b>206,000</b>	<b>170,000</b>

### Deloitte view

- We confirm that the SDPA expenditure is not materially misstated. No errors have been identified from our testing.
- The underspend is mainly as a result of the actual costs of examining the Strategic Development Plan by the Scottish Government only being £15,000 compared with a budget of £30,000.

### 3. Significant audit risks (continued)

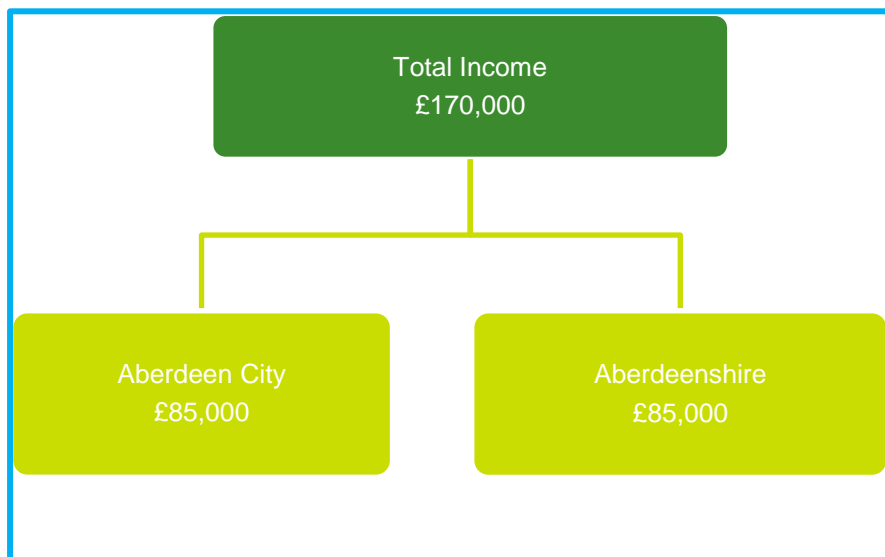
#### Presumed significant risk of revenue recognition

##### Nature of risk

Under ISA (UK and Ireland) 240 'The auditor's responsibility to consider fraud in an audit of financial statements' there is a rebuttable presumption that there is a risk of fraud in relation to revenue recognition. For the Authority we have considered this risk to be around the completeness of requisitions from the constituent authorities given the significance of these to the organisation.

##### Audit work completed to address the significant risk

We have reviewed the treatment of income in the year to consider whether it is line with IFRS guidance and the Code. We have obtained a copy of the 2013/14 budget approved by the Authority detailing the requisitions due from the partner Councils which have been agreed to the amount recognised by the Authority. We have also agreed the amounts received through the bank account.



##### Deloitte view

- We have confirmed that the income recognised by the Authority is in accordance with the agreed budget and has been correctly recognised in the financial statements.

### 3. Significant audit risks (continued)

We have no significant findings in respect of the below risks

#### **Use of Aberdeenshire Council Payments Ledger**

The SDPA is set up as a cost centre within Aberdeenshire Council's financial ledger and not as a separate organisation. There is a risk that the SDPA's transactions may not be properly reflected within the financial ledger, resulting in the misstatement of the SDPA's financial position within the financial statements.

We have gained an understanding in regards to the design and implementation of key controls in place in relation to the posting of SDPA's receipts and payments to the ledger. We have performed detailed testing to ensure that expenditure has been properly reflected in the SDPA's cost centre within the ledger, including testing to identify any unrecorded liabilities. No issues were noted.

#### **Management Override of Controls**

Management within Aberdeenshire Council acting on behalf of the SDPA is in a unique position to perpetrate fraud because of their ability to directly or indirectly manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. The risk of management override of control is present in all entities. This risk cannot be pinpointed to an account balance or potential error and therefore specific procedures to respond to the risk of management override of controls should be designed and performed.

We have obtained an understanding of the design and implementation of the key controls in place in relation to the posting of journal entries. We have performed procedures on all journal entries of audit interest posted in the year and confirmed the appropriateness of the journals posted. In addition, we have also conducted a review of significant accounting estimates in order to assess the reasonableness of management's judgements in relation to these estimates. We have not noted any transactions that appear to be outwith the course of normal business.



# 4. Your annual report – our review and insights

## The front half meets current regulatory requirements

We are required to read the “front half” of your annual report to consider consistency with the financial statements and any apparent misstatements. Here we summarise our observations on your response to these areas:

### Statement on the System of Internal Financial Control

“Delivering Good Governance in Local Government” published by CIPFA and SOLACE recommends that the review of the effectiveness of the system of internal control be reported in an Annual Governance Statement. **Scottish local authorities are not subject to such statutory requirements but may adopt them voluntarily.** Authorities that do not voluntarily choose to do this shall include a statement on the system of internal financial control with their Statement of Accounts.

- Aberdeen City and Shire SDPA has chosen not to publish the wider Annual Governance Statement within its statement of accounts. It has therefore included a Statement on the System of Internal Financial Control.
- The format and content of the statement is consistent with the requirements of the Code and concludes that reasonable assurance can be placed on the adequacy and effectiveness of the Authority's Internal Control System in the year to 31 March 2014. No areas have been highlighted as requiring improvement, which is consistent with the findings of our audit

### Remuneration Report

Local authorities are required by the 1985 Regulations (as amended in 2011) to publish a remuneration report as part of their statement of accounts.

- Aberdeen City and Shire SDPA has published a Remuneration Report as part of its statement of accounts, in accordance with the amendment regulations. The Remuneration Report provides details of the Authority's remuneration policy for its senior employees, being the Manager. The Authority does not make any payments to any members of the Authority, whether elected Member or otherwise appointed, by way of salary, enhanced pension benefits or reimbursement of expenses.
- We are satisfied that the remuneration report has been prepared in accordance with the amendment regulations and is consistent with the findings of our audit

## 4. Your annual report – our review and insights (continued)

### *Critical accounting judgements and key sources of estimation uncertainty*

In the course of our audit of the financial statements, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understandability and materiality of the information provided by the financial statements. Our comments on the quality and acceptability of the accounting policies and estimates are discussed below.

We have assessed the disclosures based upon our review of the accounts and understanding of the organisation and the specific risks we identified as part of our planning process. We have not identified any other critical accounting judgements or key sources of estimation uncertainty that require to be disclosed. We have performed work as follows against each of these areas:



#### **Future Funding Uncertainty**

Management has made certain judgements about transactions involving uncertainty about future events. Disclosure has been made that there is a degree of uncertainty about future levels of funding from local government and hence funding for Aberdeen City and Shire SDPA. However, the Treasurer has determined that the level of uncertainty is not yet sufficient to provide an indication that the activities of the Authority might be affected by the need to reduce level of service provision.

We have confirmed that a budget has been agreed for 2014/15 with funding levels in line with 2013/14, and indicative budgets are in place for 2015/16 confirming funding beyond April 2015, and therefore concur with the Treasurer's statement.

## 4. Your annual report – our review and insights (continued)

### *Defined Benefit Pension Scheme*

Aberdeen City and Shire SDPA participates in the North East Scotland Pension Fund, which is a multi-employer defined benefit scheme, where the share of the assets and liabilities applicable to each employer is not identified. This is therefore accounted for on a defined contribution basis as permitted by IAS 19.

Normal employer contributions paid in 2013/14:  
£14,333 or 19.3% of pensionable pay

We have reviewed the disclosure within the accounts against the Code and noted that it highlights Local Government Pension Schemes in relation to the participation of minor non-principal authorities that prepare their accounts in accordance with the Code (of which Aberdeen City and Shire SDPA is one) meet the criteria to account for as defined contribution plans.

## 5. Best value, use of resources and performance

### Financial performance and outlook

Aberdeen City and Shire SDPA budgeted a breakeven position for the year to 31 March 2014, with budgeted income and expenditure of £206,000. The final out-turn was a net underspend of £6,000 which is due to be returned to the constituent authorities.

	2013/14 Budget £	2013/14 Actual £	2013/14 Variance £	2014/15 Budget £
Gross Expenditure	206,000	170,000	36,000	174,000
Income	(206,000)	(176,000)	(30,000)	174,000
Net Income	Nil	6,000	6,000	Nil

Expenditure is lower than budgeted in 2013/14 mainly due to the actual costs of examining the Strategic Development Plan by the Scottish Government only being £15,000 compared with a budget of £30,000.

A 2014/15 budget was approved by the Authority in March 2014. For the purposes of the budget, it has been assumed that the complement of dedicated staff will remain at the current position of one Manager and one Planner for the period. The budget for work done by outside contractors is expected to be in the region of £30,000 for the next two years as work will be completed on Housing Market Area Review and the Housing Need and Demand Assessment. After this, it is anticipated that this will then drop until 2018/19 when the next Strategic Development Plan examination commences.

## 6. Insights - risk management and internal control observations

### Key controls over significant risks

In Section 1 we discussed the identified significant audit risks. For each of these significant audit risks we have assessed the design and implementation of internal controls in each of those areas, summarised below:

Significant Risk	Control
Expenditure Recognition	The Authority is provided with statements of expenditure against budget at each meeting, which are reviewed in detail. Any virements must be approved by the Authority. We have reviewed the minutes of the Authority meetings held during 2013/14 confirming that the budget is monitored and reviewed on a regular basis.
Revenue recognition – Grants and Requisitions	The contributions from each of the partner Councils are agreed as part of the annual budget process. This is monitored during the year by the finance team and the Authority, through the regular finance reports. We have confirmed that the contributions agreed as part of the budget have been reconciled to the actual amounts received and accounted for in the financial statements.
Use of Aberdeenshire Council Payments Ledger	Controls are in place over recording and processing data within the financial ledger. In addition, a detailed review is performed regularly on the results through the financial monitoring reports. We have reviewed the minutes of the Authority meetings held during 2013/14 confirming that the budget is monitored and reviewed on a regular basis.
Management override of controls	Controls are in place over financial reporting and closing procedures, recording and processing of journals and segregation of duties which prevent the management override of controls. In addition a detailed review is performed regularly on the results through the financial monitoring report. We have tested all journal entries of audit interest posted in the year and confirmed the appropriateness of the journals posted including approval.

# 7. Responsibility Statement

## Our report is designed to help you meet your governance duties

### What we report

Our report is designed to help the Authority discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report
- Our internal control observations
- Other insights we have identified from our audit.

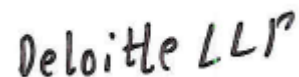
### What we don't report

- As you will be aware, our audit was not designed to identify all matters that may be relevant to the Authority.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

### The scope of our work

- Our observations are developed in the context of our audit of the financial statements.
- We described the scope of our work in our audit plan and the supplementary "Briefing on audit matters" circulated to you on 23 August 2013.

We welcome the opportunity to discuss our report with you and receive your feedback.



**Deloitte LLP**  
Chartered Accountants

Edinburgh  
5 September 2014

This report has been prepared for the SDPA, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent.

# 7. Responsibility Statement (continued)

## Responsibilities

### Management responsibility

It is the responsibility of the Authority and the Treasurer, as Responsible Officer, to prepare the financial statements in accordance with the CIPFA/ LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. This means:

- acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
- maintaining proper accounting records;
- preparing financial statements timeously which give a true and fair view of the financial position of the Authority and its expenditure and income for the period ended 31 March 2014; and
- preparing an Explanatory Foreword, a Statement on the System of Internal Financial Control and a Remuneration Report.

### Auditor's responsibilities

We audit the financial statements and the part of the Remuneration Report to be audited and give an opinion on:

- whether they give a true and fair view in accordance with applicable law and the 2013/14 Code or the state of the affairs of the body as at 31 March 2014 and of the income and expenditure of the body for the year then ended;
- Whether they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2013/14 Code; and
- Have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

# Appendix 1: Audit adjustments and disclosure misstatements

## Uncorrected misstatements

There have been no uncorrected misstatements noted during the process of our audit work.

## Corrected misstatements

There have been no corrected misstatements noted during the process of our audit work.

## Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. We have noted no material disclosure deficiencies in the course of our audit work.



## Appendix 2: Independence and fees

As part of our obligations under International Standards on Auditing (UK & Ireland) and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General, we are required to report to you on the matters listed below:

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<b>Independence confirmation</b>	We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.
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<b>Fees</b>	The audit fee for the year has been agreed at £3,000 (inclusive of VAT) and is within the indicative fee range set by Audit Scotland.
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<b>Non-audit services</b>	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the company's policy for the supply of non-audit services or of any apparent breach of that policy.
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There were no non audit services fees charged in relation to Deloitte LLP in the period from 1 April 2013 to 31 March 2014.

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<b>Relationships</b>	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence.
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We are not aware of any relationships which are required to be disclosed.

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# Appendix 3: Fraud considerations

## Characteristics

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant to us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.
- We are aware that management has the following processes in place in relation to the prevention and detection of fraud:
  - Adoption of Aberdeenshire Council's Financial Regulations, which include a section on the Prevention and Detection of Fraud.
  - In order to assist in the prevention of fraud and corruption, appropriate internal control have been established
  - All members and employees are expected to comply with the Council's Disclosure of Information (Whistle blowing) and Anti-fraud and Corruption Policies.

## Responsibilities

### Your responsibilities

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

### Our responsibilities

- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in Section 2 above we have identified the risk of fraud in revenue recognition and management override of controls as a key audit risk for your organisation.

*Appropriate arrangements are in place for maintaining standards of conduct and the prevention and detection of corruption.*

# Appendix 4: Future developments

## Additional information on current and future technical developments

### Stay tuned online: Internet-based corporate reporting updates

The Deloitte UK Technical Team run a series of internet-based financial reporting updates, aimed at helping finance teams keep up to speed with IFRS, UK GAAP and other reporting issues.

Each update lasts no more than one hour, and sessions are held three times a year, at the end of March, July and November. Recordings of past sessions are available via [www.deloitte.co.uk/audit](http://www.deloitte.co.uk/audit).

### Our range of publications

Our iGAAP books are available to our clients electronically and in hard copy. These include our major manuals providing comprehensive, practical guidance; model annual report and financial statements; and our major text on financial instruments providing in depth support to preparers and auditors in this challenging area.

Our range also includes quarterly iGAAP newsletters providing a round up of recent developments. iGAAP and ukGAAP alerts are issued whenever a new exposure draft or standard is issued.

### Audit podcasts

Our leading experts provide you with a short discussion of new IFRS standards and practical insights. These can be accessed via our website, [www.deloitte.co.uk/audit](http://www.deloitte.co.uk/audit). Alternatively, you can subscribe to our podcasts via iTunes – just search for Deloitte IFRS.

### IASPlus

The IAS Plus website, maintained by Deloitte, provides the most comprehensive information on the Internet about international financial reporting. It is aimed at accounting professionals, businesses, financial analysts, standard-setters and regulators, and accounting educators and students. The site, which is totally free of charge, has a broad array of resources about the International Accounting Standards Board, International Financial Reporting Standards, and international accounting and auditing in general. It includes:

- Summaries of all IASB standards and interpretations;
- Background on all IASB and IFRIC agenda projects plus summaries of all IASB and IFRIC meetings;
- Comparisons of IFRSs and various local GAAPs;
- Updates on national accounting standards development in around 80 countries and regions throughout the world; and
- Free e-learning modules for each IAS and IFRS – made available at no charge in the public interest.

The site is available to browse at any time; alternatively you can subscribe to e-mail alerts and newsletters by going to <http://www.iasplus.com/subscribe.htm>



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