



## **Strategic Development Planning Authority for Edinburgh and South East Scotland**

### **Annual report on the 2013/14 audit**

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

October 2014

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# Introduction

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1. This report is the summary of our findings arising from the 2013/14 audit of the Strategic Development Planning Authority for Edinburgh and South East Scotland (SESplan).
2. Our responsibility, as the external auditor of SESplan, is to undertake our audit in accordance with International Standards on Auditing (UK and Ireland) and the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.
3. The management of SESplan is responsible for:
  - preparing financial statements which give a true and fair view
  - implementing appropriate internal control systems
  - putting in place proper arrangements for the conduct of its affairs
  - ensuring that the financial position is soundly based.
4. This report is addressed to the members of the Joint Committee and the Controller of Audit and should form the basis of discussions with the Joint Committee. This report will be published on our website after it has been considered by the Joint Committee.
5. Appendix I of this report sets out the significant audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.
6. A number of reports, both local and national have been issued by Audit Scotland during the course of the year. These reports are shown at Appendix II.
7. Appendix III 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 "Management action/response".
8. We recognise that not all risks can be eliminated or even minimised. What is important is that SESplan understands its risks and has arrangements in place to manage these risks. The Authority and the Proper Officer should ensure that they are satisfied with proposed management action and have a mechanism in place to assess progress and monitor outcomes.
9. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
10. We would like to express our thanks to the staff of SESplan and Fife Council for their help and assistance during this year's audit which has enabled us to provide an audit report within the agreed timetable.

# Financial statements

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## Audit opinion

11. We have given an unqualified opinion that the financial statements of SESplan for 2013/14 give a true and fair view of the state of the affairs of the authority as at 31 March and of the income and expenditure for the year then ended.

## Other information published with the financial statements

12. Auditors review and report on other information published with the financial statements, including the explanatory foreword, the statement on the system of internal financial control and the remuneration report. We have nothing to report in respect of these statements.

## Legality

13. Through our planned audit work we consider the legality of the authority's financial transactions. This includes obtaining written assurances from the Treasurer. There are no legality issues arising from our audit which require to be reported.

## Accounting issues arising

14. A number of presentational adjustments were identified in the financial statements during the course of our audit. These were discussed with management who agreed to amend the financial statements.
15. During the course of the audit we also identified two significant issues regarding the timing of transactions:
  - Three invoices for a total £12,398 relating to the period August 2012 to March 2013 had been included fully within 2013/14 as expenditure. The invoices were only received during 2013/14. This expenditure should have been included as a creditor at 31 March 2013 and included as expenditure in 2012/13.
  - Expenditure of £8,641 relating to 2013/14 but accounted for in 2014/15 was identified. This should have been included as a creditor at 31 March 2014 and included in 2013/14 expenditure.
16. These issues were corrected for in the final version of the accounts.

## Report to those charged with governance

17. We issued our report to those charged with governance (ISA 260) on 29 September 2014. The primary purpose of this report is to communicate the significant findings arising from our audit prior to finalisation of the independent auditor's report. Other than the errors noted at paragraph 14 above there were no significant issues to draw to the attention of those charged with governance.

## Outlook

18. The revised Local Authority Accounts (Scotland) Regulations 2014 apply for financial years 2014-15 onwards. The regulations set out in more detail what is required in respect of financial management and internal control, and in respect of the annual accounts themselves. Some of the changes include the requirement for the unaudited accounts to be considered by a meeting of the Authority no later than 31 August. In addition the audited accounts must be considered and approved for signature by the authority by 30 September with publication on the authority's website by 31 October.

### **Action plan no.1**

# Financial position

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## 2013/14 Financial results

19. The authority's financial statements show a surplus of £148 on the provision of services for 2013/14. SESplan achieved an under-spend on budget of £47,328, mostly due to a saving of £36,393 on consultant and professional fees. Expenditure during the year primarily related to employee costs and accommodation costs and was funded by requisitions from constituent councils.
20. Following the application of accounting adjustments that are made to translate the surplus to the statutory position, the net general fund income after adjustments was £3,558 which resulted in the usable reserves balance increasing from £80,028 as at 1 April 2013 to £83,586 at 31 March 2014.
21. The authority's balance sheet as at 31 March 2014 reflected net assets of £79,122 (31 March 2013 £78,974).

## Outlook

22. The proposed operating budget for 2014/15 was approved by the Joint Committee in October 2013 for ratification by the constituent authorities. Budgeted expenditure for 2014/15 is £338,238, the largest elements of which continues to be staff and accommodation costs.

23. SESplan's main source of income is from contributions from member authorities. Requisitions for 2014/15 were agreed at £294,000, comprising £49,000 from each of the six member authorities. This is the same level of contributions as the previous two financial years.
24. The 2014/15 budget includes expected net expenditure of £44,238. This is after applying a savings target of 5% of the total costs, which equates to £16,974. These savings are mainly scheduled to come from the relocation of the SESplan core team, to co-locate with one of the member authorities. These savings were reported to the Joint Committee in March 2014 and a refund of £2,829 to the member authorities was advised.
25. Initial one-off funding provided by the Scottish Government in 2008 has now been utilised and any future budget pressures will have to be met from usable reserves. It is likely that SESplan will need to identify further savings in future years, or negotiate increased levels of requisitions from member authorities.

**Action plan no. 2**

# Governance and accountability

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## Overall governance arrangements

26. The Code of Audit Practice gives auditors a responsibility to review and report on audited bodies' corporate governance arrangements and overall we found that SESplan had sound governance arrangements in place.

## Accounting and internal control systems

27. While auditors concentrate on significant systems and key controls in support of the opinion on the financial statements, their wider responsibilities require them to consider the financial systems and controls of audited bodies as a whole. However, the extent of this work should also be informed by their assessment of risk and the activities of internal audit.
28. 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. No material weaknesses in the accounting and internal control systems were identified during the audit which could adversely affect the ability to record, process, summarise

and report financial and other relevant data so as to result in a material misstatement in the financial statements.

## Statement on the system of internal financial control

29. We are satisfied with the disclosures in the Statement on the System of Internal Financial Control, which is included in the financial statements, in line with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom. This statement sets out the framework within which financial control is managed and reviewed and the main components of the system, including the arrangements for internal audit.

## Prevention and detection of fraud and irregularity

30. In our Annual Audit Plan we highlighted the responsibility audited bodies have for establishing arrangements to prevent and detect fraud and other irregularities. In our opinion SESplan's overall arrangements for the prevention of fraud and irregularity are satisfactory, although it should be noted that no system can eliminate the risk of fraud entirely.

## Standards of conduct and arrangements for the prevention and detection of corruption

31. 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. No issues have been identified by us for inclusion in this report.

## Support services provided by constituent councils

32. Support services for the authority are provided by the constituent councils, such as financial, Human Resources and legal services. Constituent authorities and SESplan have agreed that at the present time the constituent authorities will not recharge for the services provided.
33. 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.

### Action plan no. 3

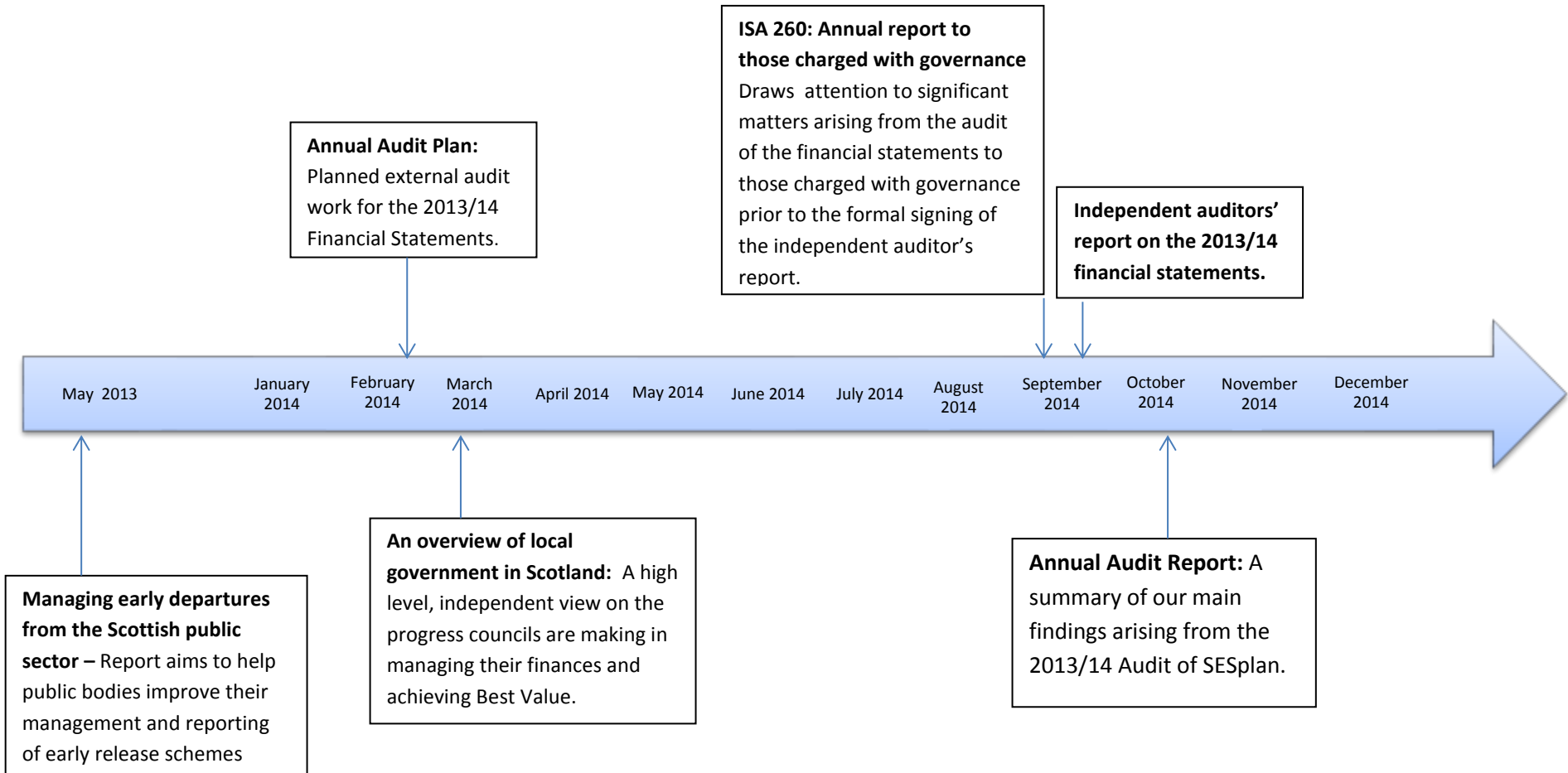


## Appendix I – Significant audit risks

The table below sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure
<p>No written confirmations have been provided to the accountable officer from internal audit or senior officers in support of the Statement on the System of Internal Financial Control contained in the annual financial statements. There is a risk that the accountable officer may not have sufficient assurance that the internal controls are in place and operating effectively.</p>	<p>Written assurances in support of the statement on the system of internal financial control were obtained in 2013/14 and copies provided to audit.</p>
<p>No formal service level agreements are in place with member authorities which presents a risk that service provision does not adequately meet the needs of the organisation.</p>	<p>Monitored developments throughout the year.</p>
	<p>Included as an action plan in this report to keep the situation under review.</p>
<p>Continuing financial pressures will put a strain on the financial sustainability of the Authority. Funding levels may be insufficient to meet the expenditure needs of the Authority and member authorities may be unable or unwilling to provide additional funding to meet any deficit.</p>	<p>Monitored financial reports during the year.</p>
	<p>Assessed financial position at the year end.</p>
	<p>Reviewed budget proposals for future financial years.</p>

## Appendix II – SESplan local audit reports & Audit Scotland national reports 2013/14



## Appendix III – Action plan

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
1/3	<p><b>Regulation changes</b></p> <p>Amendments to the Local Authority Accounts (Scotland) Regulations will apply for financial years 2014-15 onwards. The changes to the regulations include the requirement for the unaudited accounts to be considered by a meeting of the authority no later than 31 August. In addition the audited accounts should be considered and approved for signature by the authority by 30 September with publication on the authority’s website by 31 October.</p> <p><b>Risk:</b> the timing of joint committee meetings in future years may not allow the requirements of the regulations to be met.</p>	<p>The 2014-15 meetings timetable will be considered to ensure we comply with the new regulations that the unaudited accounts are considered at a meeting no later than 31 August and that the audited accounts are considered and approved no later than 30 September.</p>	<p>Ian Angus, SDPA Manager</p>	<p>31 January 2015</p>

Appendix III – Action Plan

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
2/4	<p><b>Funding</b></p> <p>Budgets for future years include net expenditure which will be met through the authority’s usable reserves. This is not sustainable and future budgets will need to include either increased contributions from member authorities or higher levels of savings.</p> <p><b>Risk:</b> member authorities may not approve any higher levels of contributions as they are having to achieve high levels of savings in their own budgets.</p>	<p>A new budget plan for the next 5 years has been prepared and laid before the joint committee for approval. This incorporates savings on accommodation, reduction in variable expenditure and reduced levels of contribution from member authorities with the aim of Sesplan being in the position of income exceeding expenditure by 2016/17. This plan allows for the cyclical nature of the variable expenditure. In addition, expenditure will be closely monitored and any emerging budget pressures or projected overspends will be addressed at an early stage.</p>	Ilan Angus, SDPA Manager	On-going

Appendix III – Action Plan

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
3/6	<p><b>Service Level Agreements</b></p> <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><b>Risk:</b> service provision may not adequately meet the needs of the authority and may not support continuous improvement and best value.</p>	Quality & value of service provision will be kept under review, as will the potential need for SLAs.	Ian Angus, SDPA Manager	On-going