

**ABERDEEN
CITY AND
SHIRE** | *Strategic Development
Planning Authority*

Final report to the Authority and the Controller of Audit on the 2014/15 audit

23 September 2015

the
Distinctive
audit

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Our final report

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A reminder of our audit plan:

- Materiality: £5,000 (2013/14: £8,500).
- Performance materiality: £4,500 (2013/14: £7,650).
- Threshold for reporting misstatements: £100 (2013/14: £170).
- Significant risks over revenue recognition and management override of controls.
- Significant judgements over future funding uncertainty and the defined benefit pension scheme.
- **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



Partner introduction

Partner introduction

Financial statement audit

I have pleasure in presenting our final report to the Board for the 2014/15 audit. I would like to draw your attention to the key messages of this paper:

Conclusions from our testing

- The key risks and judgements in the audit process related to:
 - Revenue recognition
 - Management override of controls
 - Future Funding Uncertainty
 - Defined Benefit Pension Scheme
- We have identified one factual misstatement during our audit which has been corrected as detailed in Appendix 1.
- Based on the current status of our audit work, we anticipate issuing an unmodified audit opinion.

Status of the audit

- The audit is substantially complete subject to the completion of the following matters:
 - Receipt of signed management of representation letter; and
 - Our review of events since 31 March 2015.

Audit quality is our number one priority. When planning our audit we set the following audit quality objectives for this audit:

A robust challenge of the key judgements taken in the preparation of the financial statements.

A strong understanding of your internal control environment.

A well planned and delivered audit that raises findings early with those charged with governance.

Partner introduction (continued)

Public sector audit dimensions

We have commented below on the Audit Scotland impact dimensions with regard to Aberdeen City and Shire SDPA (“SDPA”).

Financial sustainability

Financial sustainability continues to be one of the most significant challenges and risks for SDPA. We will continue to monitor these arrangements.

SDPA has a 4 year budget in place over which future income and expenditure are forecasted. Uncertainty over future levels of funding from local government is monitored through budgeting.

Financial Management

The final outturn was an in-year surplus of £21k against a breakeven target.

SDPA monitors budgeted and actual expenditure on a regular basis throughout the year.

Best Value (BV)

SDPA has a Strategic Development Plan in place which was approved by Scottish Ministers in August 2009.

A performance report is provided on an annual basis to consider the achievements of the Authority in the year.

Governance and Transparency

SDPA has a Board which meets on a regular basis to assess the performance of the Authority against budget and to determine the risks affecting the Authority.



Partner introduction (continued)

Significant risk dashboard



Fraud risk	Controls approach and findings	Consistency of judgements with Deloitte expectations	Comment
Revenue recognition – Grants and Requisitions			
✓	Evaluate design / implementation of key controls. No controls reliance. No significant observations.	●	We have confirmed that the contributions agreed as part of the budget have been reconciled to the actual amounts received and appropriately accounted for in the financial statements.
Management override of controls			
✓	Evaluate design / implementation of key controls. No controls reliance. No significant observations.	●	<p>We identified no issues with journal entries or other adjustments made in the preparation of the financial statements.</p> <p>Our review of accounting estimates for bias that could result in material misstatement due to fraud noted no issues. One adjustment was noted, as detailed in Appendix 1, where the VAT element of an invoice was incorrectly accrued. This has been corrected in the final accounts.</p>

Overly prudent, likely to lead to future credit - - ● + + Overly optimistic, likely to lead to future debit.

Scope, nature and extent of audit

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 National Fraud Initiative (NFI)); and
- Submitting fraud returns, including nil returns, to Audit Scotland where appropriate.



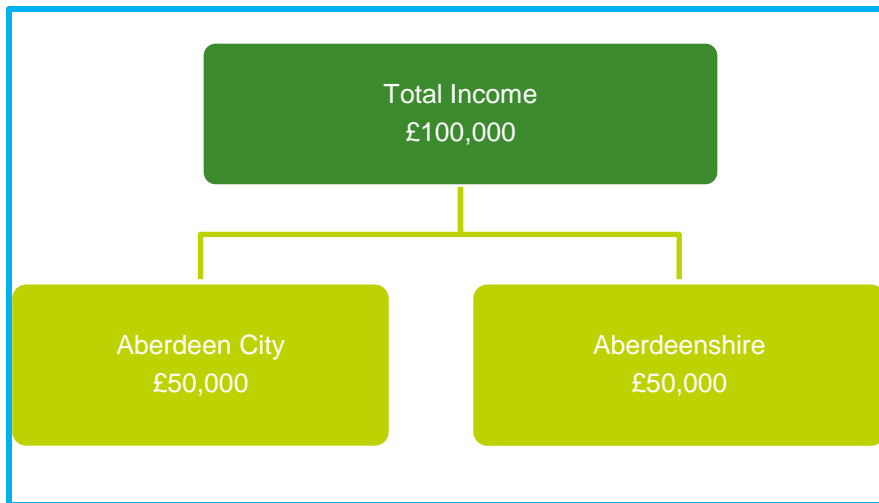
Significant risks and critical accounting judgements

Revenue recognition

Risk Identified

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

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.



Key judgements

We have reviewed the treatment of income in the year to consider whether it is in line with IFRS guidance and the Code. We have obtained a copy of the 2014/15 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 response

- No issues noted from our review of the treatment of income in the year, which has been accounted for in line with the Code.
- We have agreed all income received to bank statements and journal entries.

Management override of controls

Risk Identified

International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor.

This recognises that 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.

Key judgements

Our audit work is designed to test for instances of management override of controls.

Deloitte response

- No issues noted around journal entries and other adjustments made in the preparation of the financial statements.
- Our review of accounting estimates for bias that could result in material misstatement due to fraud noted no issues.
- Retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements completed with no issues noted.
- We have not noted any transactions that appear to be outwith the course of normal business.

Critical accounting judgements and key sources of estimation

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 2015/16 with funding levels in line with 2014/15, and indicative budgets are in place for 2016/17 confirming funding beyond April 2016, and therefore concur with the Treasurer's statement.

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.

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.

Financial performance and outlook

Financial performance and outlook

Value for money

Aberdeen City and Shire SDPA budgeted a breakeven position for the year to 31 March 2015 with budgeted income and expenditure of £174,000. The final out-turn was a net underspend of £21,000 which is due to be returned to the constituent authorities.

Overall financial and quality performance

The table below illustrates how the Board's performance compares to plan and prior year:

	2014/15 Budget £	2014/15 Actual £	2014/15 Variance £	2015/16 Budget £
Gross Expenditure	174,000	100,000	74,000	176,000
Income	(174,000)	(121,000)	(53,000)	176,000
Net Income	Nil	21,000	21,000	Nil

Expenditure is lower than budgeted in 2014/15 largely due to a reduction in staff costs of £43,000, due to the staffing being one employee lower than required. It is anticipated that an additional member of staff can be recruited in 2015/16 in order to assist in progressing the programme. Additionally, contractor costs were £25,000 lower than expected due to data from the Housing department not being received to allow the work to progress.

Financial Outlook

A 2015/16 budget was approved by the Authority in March 2015. For the purposes of the budget, it has been assumed that the full complement of dedicated staff will be in place for the year at one Manager and one Planner. Other costs are expected to remain in line with the 2014/15 forecast, with contractor costs in the region of £30,000 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.

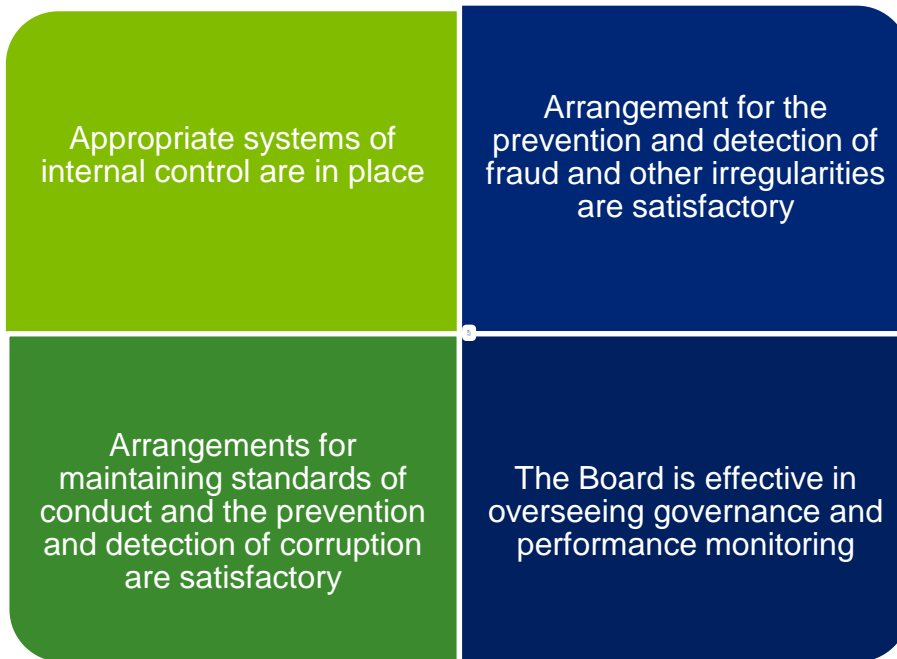
No issues noted from our review of the treatment of income and expenditure in the year, which has been accounted for in line with the Code.

Governance and accountability

Governance and Transparency

Governance arrangements are operating effectively

In accordance with the Code of Audit Practice, we are required to consider and formally report in relation to the following key matters:



We confirm that we have reviewed the arrangements in each of the four areas and have identified no issues in this regard.

The Vice Chair changed during the year to Councillor Ramsay Milne from Aberdeen City Council in order to comply with the constitution of the Authority where the Chair and Vice Chair will rotate on a 2 yearly cycle.

The Board met on a regular basis during 2014/15 in order to review performance to date, and to monitor changes from budget.

We are comfortable with the fraud arrangements in place and confirm there have been no financially significant frauds of which management have made us aware.

Internal Audit services continue to be provided through Aberdeenshire Council's Chief Internal Auditor.

Your Annual Report

Our comments on your annual report

We welcome this opportunity to set out for the Authority our observations on the annual report. 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:

Deloitte response

Management Commentary

The Management Commentary reflects on those matters companies are required to disclose under the Companies Act 2006, tailored for local authorities. This includes description of the principal risks and uncertainties facing the authority, a review of performance in the year, a measurement of progress against performance indicators and commentary on going concern.

We have read the Management Commentary in full in order to ensure that it is in line with our understanding of the Authority and complies with the required guidance on Management Commentary. We are satisfied with the contents of this report.

Governance Statement

The Governance Statement reports that the SDPA is in compliance with the aspects of the UK Corporate Governance Code which are set out within the guidance as being applicable to Authorities.

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 2015. No areas have been highlighted as requiring improvement, which is consistent with the findings of our audit.

Remuneration Report

The remuneration report has been prepared in accordance with the requirements of the Local Authority Accounts (Scotland) Regulations 2014, disclosing the remuneration of the senior employee working for the Authority. 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.

Purpose of our report and responsibility statement

Purpose of our report and responsibility statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Authority and Controller of Audit discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK and Ireland) 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.
- 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

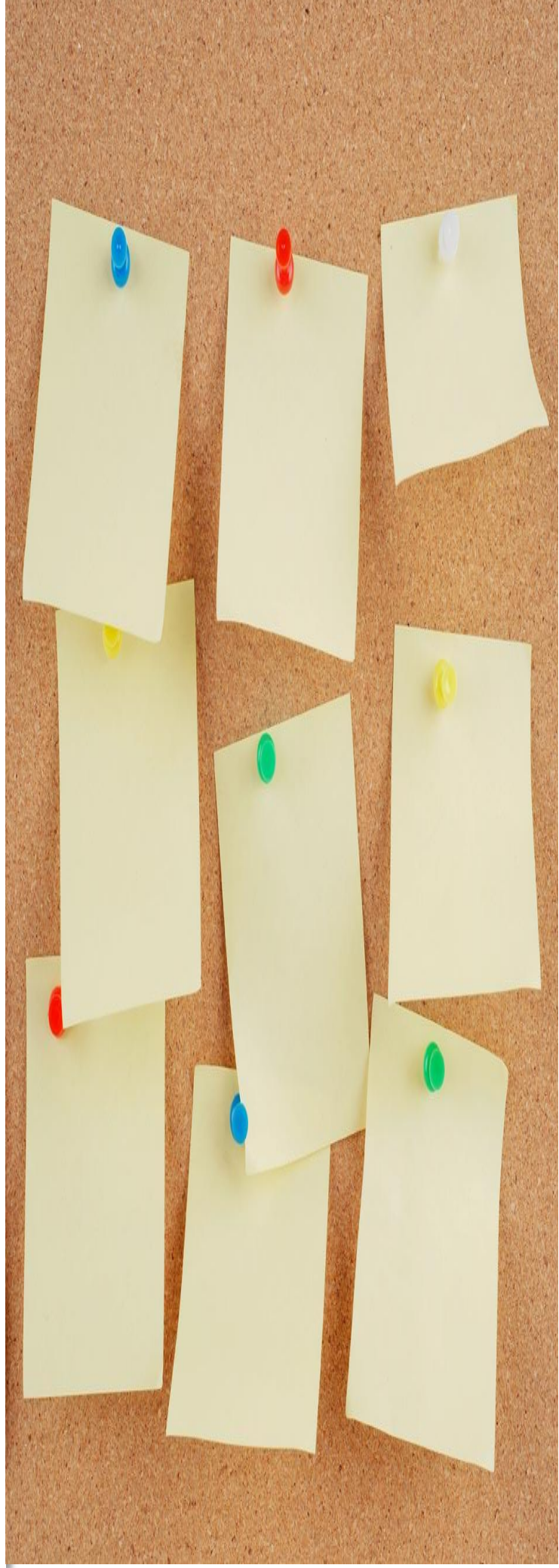
- Our observations are developed in the context of our audit of the financial statements.
- We described the scope of our work in our audit plan and the supplementary "briefing on audit matters" previously circulated to you.

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

Deloitte LLP

Deloitte LLP
Chartered Accountants
Edinburgh
19 August 2015

Appendices



Audit adjustments



Summary of uncorrected and corrected misstatements

Uncorrected misstatements

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

Corrected misstatements

- A factual misstatement was noted within creditor testing for £750. This error has been adjusted for. The misstatement occurred due to VAT being incorrectly accrued on an outstanding invoice. We have tested the entire creditor balance thus this is an isolated error.

Disclosure misstatements

- Auditing standards require us to highlight significant disclosure misstatements to enable the Board 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.

Fraud responsibilities and representations

Responsibilities explained



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.

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.

Required representations

We have asked the Authority to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity.

We have also asked the Authority to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

Audit work performed

- In our planning we identified the risk of fraud in other income recognition and management override of controls as a key audit risk for the Authority.
- During course of our audit, we have had discussions with management and those charged with governance.

Concerns

- As set out above we have identified the risk of fraud in other income recognition and management override of controls as a key audit risk for your organisation.

Independence and fees

There are no issues we wish to raise to you



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:

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
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Fees	Our audit fee for the year has been agreed at £3,040 (inclusive of VAT) and is within the indicative fee range set by Audit Scotland. There were no non-audit services for the period
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Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the Authority's policy for the supply of non-audit services or of any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
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Relationships	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.

Events and publications

Our publications to support the Authority.

IAS Plus

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>

Finance Business Partnering – A Public Sector View

Deloitte's research into Finance Business Partnering has analysed the responses of 75 senior Finance executives from UK headquartered organisations, including 20 public sector organisations across central government departments, arm's length bodies and agencies.

The results were as follows:

- No Public Sector respondents see Finance as their primary source of insight for decision-making. As the need to demonstrate and contribute to value for money becomes more important than ever, Public Sector Finance teams must look to position themselves as a central part of decision-making.
- Fifty-three per cent of Public Sector respondents recognise a lack of appropriate skills and behaviours in their existing teams as a barrier to more effective Business Partnering. This is an issue also felt by the Private Sector, which creates fierce competition for skills.
- Deloitte analysis finds that role definition drives skill demonstration. CFO's are looking at the wrong problem. It is not a lack of skills but a lack of role definition that they need to address.,



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