Strategic Development Planning Authority for Edinburgh and South East Scotland

Annual audit report 2014/15 to members and the Controller of Audit

September 2015

Key contacts

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The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies. (www.audit-scotland.gov.uk/about/ac)

Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. (www.audit-scotland.gov.uk)

The Accounts Commission has appointed Bruce Crosbie of Audit Scotland as the external auditor of the Strategic Development Planning Authority for Edinburgh and South East Scotland for the period 2011/12 to 2015/16.

This report has been prepared for the use of the Joint Committee and the Controller of Audit and no responsibility to any member or officer in their individual capacity or any third party is accepted.

This report will be published on our website after it has been considered by the Joint Committee.

Contents

Key messages

Audit of financial statements	• Unqualified auditor's report on the 2014/15 financial statements. • Working papers were of a good standard and officers provided good support which enabled us to complete fieldwork by the target date.
Financial management and sustainability	• The Authority incurred a general fund deficit of £32,750 in 2014/15 reducing its usable reserves to £50,836. The deficit was £9,489 less than had been planned. • Overall, the Authority has appropriate financial management arrangements in place, however improvement is required to ensure that members are fully informed on budget performance through regular financial monitoring reports.
Governance and transparency	• The Authority had sound governance arrangements in place during 2014/15.
Outlook	• The Authority intends to utilise £20,324 of its reserves to fund its 2015/16 net expenditure but over the following two years has budgeted to increase its reserves by £7,706. Good financial management remains a priority as the requisitions level remain static at £279,300 over the period 2015/16 to 2017/18.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of the Strategic Development Planning Authority for Edinburgh and South East Scotland (the Authority).

2. The management of the Authority 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.

3. Our responsibility, as the external auditor of the Authority, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.

4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.

5. 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.

6. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Audit of the 2014/15 financial statements

Audit opinion	• We have completed our audit and issued an unqualified independent auditor's report.
Going concern	• The financial statements of the Authority have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the Authority's ability to continue as a going concern.
Other information	• We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.

Submission of financial statements for audit

7. We received the unaudited financial statements on 17 June 2015, in accordance with the agreed timetable. The working papers were of a good standard and staff provided good support to the audit team which assisted the delivery of the audit to deadline.

Overview of the scope of the audit of the financial statements

8. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan issued to the Authority in March 2015.

9. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. The 2014/15 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

10. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance.

11. **Appendix I** sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

12. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

13. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).

14. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.

15. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of the Authority, we set our planning materiality for 2014/15 at £3,400 (1% of gross expenditure). We report all misstatements greater than £200. Performance materiality was calculated at £2,400, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.

16. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and set materiality for 2014/15 at £3,200. Performance materiality remained at £2,400.

Evaluation of misstatements

17. A number of presentational adjustments and one monetary adjustment were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements. The effect of the monetary adjustment is to decrease expenditure and creditors by £2,450.

Significant findings from the audit

18. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
    - The auditor’s views about significant qualitative aspects of the entity’s accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
    - Significant difficulties encountered during the audit.
    - Significant matters arising from the audit that were discussed, or subject to correspondence with management.
    - Written representations requested by the auditor.

- Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.

19. During the course of the audit we identified one significant issue that, in our view, requires to be communicated to you. In 2014/15, an invoice for £2,450 in relation to Scottish Government reporter fees was accrued as a creditor. This invoice was a duplicate of an invoice which had been raised in 2013/14 and had already been paid. As a result the cost of services has been overstated by £2,450, with an equivalent understatement of the net assets and general fund balance.

20. Management has agreed to amend the financial statements to correct this error.

Future accounting and auditing developments

Revisions to the Code of Practice

21. The financial statements of the Authority are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) which interprets and adapts International Financial Reporting Standards (IFRS) to the local context. There are no significant changes to accounting requirements introduced by the 2015/16 Code which are likely to impact on the financial statements of the Authority.

Financial management and sustainability

Financial Management

22. In this section we comment on the authority's financial outcomes and assess the authority's financial management arrangements.

23. The Authority's sets an annual budget to meet its service and other commitments for the forthcoming financial year. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

Financial outcomes

24. The authority's 2014/15 financial statements show a deficit of £33,546 on the provision of services (2013/14 surplus of £148). This was funded from useable reserves. The Authority achieved an underspend on budget of £8,694, mostly due to a saving of £27,433 from two staffing vacancies, offset by a reduction in budgeted income of £14,700 (rebate to member councils).

25. Following the application of accounting adjustments that are made to translate the deficit to the statutory position, the net general fund deficit after adjustments was £32,750 which resulted in the usable reserves balance decreasing from £83,586 as at 1 April 2014 to £50,836 as at 31 March 2015.

Financial management arrangements

26. As auditors, we need to consider whether authorities have established adequate financial management arrangements. We do this by considering a number of factors, including whether:

- the proper officer has sufficient status within the Authority to be able to deliver good financial management
- financial regulations are comprehensive, current and promoted within the Authority
- reports monitoring performance against budgets are accurate and provided regularly to budget holders
- monitoring reports do not just contain financial data but are linked to information about performance.

27. No regular financial monitoring reports are submitted to the members of the Joint Committee. In December 2014, a report was submitted to the Joint Committee on the operational budget for 2015/16. The report included budget/projected outturn comparisons for 2014/15 but did not provide explanations for variances. No other financial monitoring information was provided to members throughout the year.

Refer action plan, point 1

28. Subject to the absence of regular financial monitoring, we have concluded that the Authority has appropriate financial management arrangements in place.

Outlook

29. The operating budget for 2015/16 was approved by the Joint Committee in December 2014 and included budgeted net expenditure of £20,324.

30. Budgeted expenditure for 2015/16 is £300,874 (2014/15 £338,238). The budget reduction is largely due to the realisation of accommodation cost savings arising from the relocation of the core team to offices in one of the constituent authorities, West Lothian Council.

31. The Authority's main source of income is contributions from member authorities. Requisitions for 2015/16 were agreed at £279,300 (£294,000 in 2013/14), comprising £46,550 (£49,000 in 2013/14) from each of the six member authorities. The reduction in contribution is in response to the Authority setting a 5% saving target.

32. Local government bodies are facing increasingly difficult financial challenges. The 2015/16 operational budget report presented to members in December 2014 sets out the Authority’s estimated budgets for the two years from 2016 – 2018. During this period requisition income is set to remain static at £279,300, however the Authority plans to make contributions to its usable reserves of £7,706. The Authority intends to develop its revenue budget proposal for 2016/17 for consideration by the Joint Committee in December 2015.

Governance and transparency

Corporate governance

33. Members and management of the Authority are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements. On the basis of our cumulative knowledge and review of relevant documents, we have concluded that the Authority had sound governance arrangements in place.

Internal control

34. 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.

35. The Authority 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.

Internal audit

36. Internal audit provides members and management of an organisation with independent assurance on risk management, internal control and corporate governance processes. We are required by international auditing standards to make an assessment of internal audit to determine the extent to which we can place reliance on its work. To avoid duplication, we place reliance on internal audit work where possible.

37. Internal audit services are provided by Fife Council's Audit and Risk Management Services (ARMS). However ARMS have not carried out any work at the Authority in 2014/15. We have concluded that we are unable to place reliance on any internal audit work for 2014/15.

Arrangements for the prevention and detection of fraud

38. Audited bodies are responsible for establishing arrangements to prevent and detect fraud and other irregularities. We conclude that the Authority'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.

Arrangements for maintaining standards of conduct and the prevention and detection of corruption

39. 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. The arrangements for the prevention and detection of corruption in the Authority are satisfactory and we are not aware of any specific issues that we need to record in this report.

Appendix I: Significant audit risks

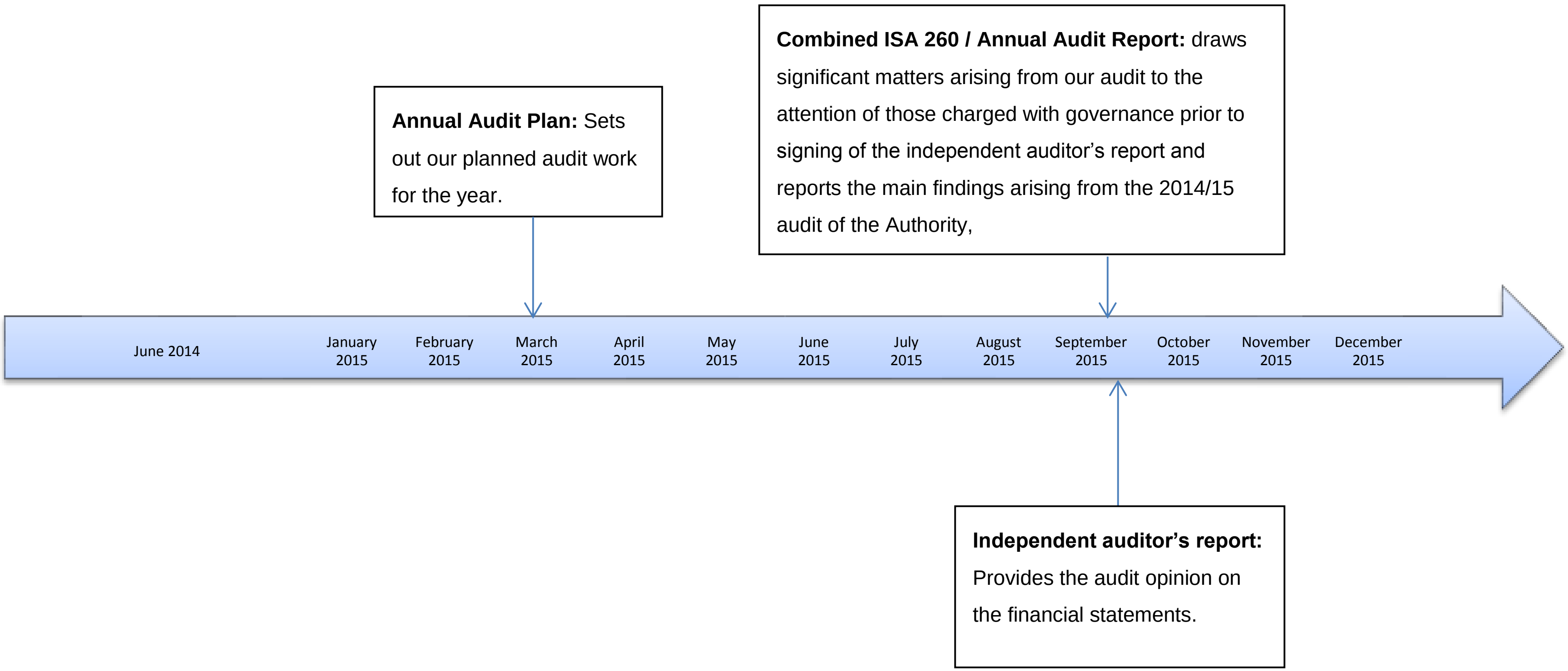
The table below sets out the financial statement audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement		
Enterprise Resource Planning The Authority uses Fife Council's financial information system. Fife Council has implemented the Enterprise Resource Planning (ERP) financial management system with effect from 1 April 2014, but has experienced significant issues with the operation of the system, including the production of robust financial monitoring information from the system. **Risk:** Financial information may not be robust, which could impinge on members' scrutiny role. There may also be an adverse impact on the system of internal controls and the preparation and audit of the 2014/15 financial statements.	• Reviewed the ERP financial management system as part of the 2014/15 Fife Council audit, including data migration, internal controls and financial reporting. • Identified and conducted further audit procedures to provide the assurances required for the purposes of the financial statements audit.	• Audit testing did not identify any issues.
Accounting for transactions in the wrong year In 2013/14 we identified two transactions which had been accounted for in the wrong year which, had they not been corrected, would have had a material impact on the financial statements. **Risk:** Transactions may not be accounted for in the correct year.	• Carried out 'cut-off' testing of transactions at the year end.	• Cut-off testing identified a duplicate invoice for £2,450 which was accrued in 2014/15 in error. Management agreed to amend the financial statements.

Audit Risk	Assurance procedure	Results and conclusions
Fraud risk - management override of controls ISA 240 requires auditors to consider, on all audits, management's ability to manipulate accounting records and prepare fraudulent or biased financial statements by overriding controls that otherwise appear to be operating effectively. **Risk:** Management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.	• Detailed testing of journal entries. • Reviewed accounting estimates for bias. • Evaluated significant transactions to determine any which were outside the normal course of business.	• Audit testing did not identify any issues.
New accounting regulations – consideration and approval of financial statements The Local Authority Accounts (Scotland) Regulations 2014 introduced changes to the approval process for the annual financial statements. For 2014/15, unaudited financial statements are required to be considered by those charged with governance by 31 August and audited financial statements approved by 30 September. **Risk:** The financial statements may not be considered and approved in accordance with the new regulations.	• Planning meetings with officers to ensure financial statements are submitted in sufficient time to allow consideration and approval by the due dates.	• We examined the key requirements of the 2014 Regulations to ensure that the Authority complied with its requirements. No issues to report regarding meeting the timetable.

Audit Risk	Assurance procedure	Results and conclusions
New accounting regulations - changes to the contents of the financial statements The new regulations include new requirements for: • a management commentary • an annual review of the system of internal control (to be reported in an annual governance statement and published as part of the annual financial accounts). The Code encourages authorities to take into account the relevant provisions of the Government Financial Reporting Manual (FREM) in respect of management commentaries. The FREM requires greater disclosures than have been included to date as part of the Explanatory Foreword. **Risk:** The Authority may not comply with the requirements of the new regulations.	• Reviewed compliance with the new accounting regulations.	• The financial statements comply with the new regulations.

Appendix II: Summary of local audit reports 2014/15



Appendix III: Action plan

No. Page/para	Issue/Risk/Recommendation	Management action/response	Responsible officer	Target date
1 **9/27**	**Issue** Financial monitoring reports are not regularly presented to the Joint Committee. **Risk** The Joint Committee may not be fully informed of the ongoing financial positon and emerging financial risks of the Authority. **Recommendation** Regular financial monitoring reports should be presented to the Joint Committee during the year. The reports could include explanations for significant variances from budget.	Detailed financial monitoring reports to be submitted to the SESplan Joint Committee twice a year with one occasion being at the end of each financial year	Strategic Development Plan Manager	30 June 2016