

Aberdeen City and Shire Strategic Development Planning Authority

2017/18 Annual Audit Report



 **AUDIT SCOTLAND**

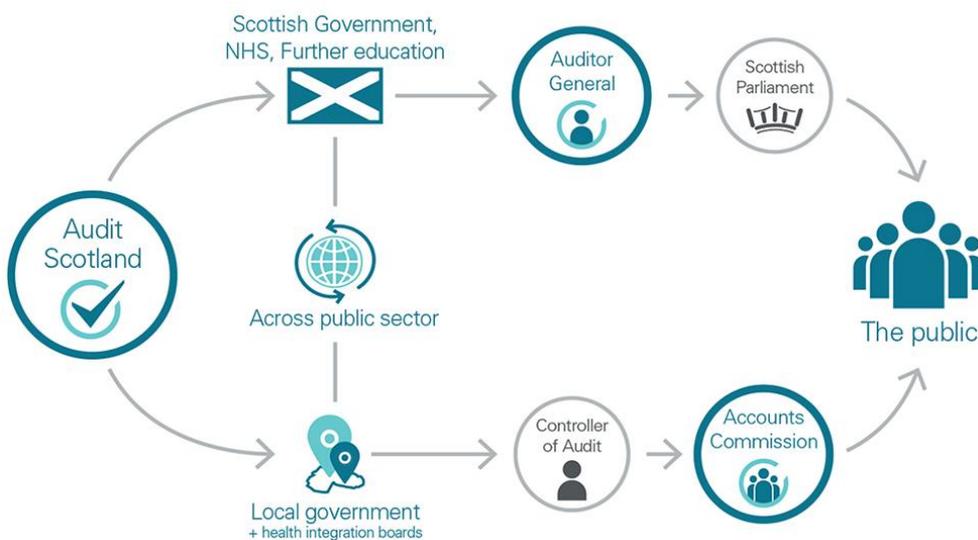
Prepared for Aberdeen City and Shire Strategic Development Planning Authority
and the Accounts Commission

26 September 2018

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish Ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Key messages

Audit of the 2017/18 annual accounts

- 1** In our opinion, the authority's financial statements give a true and fair view and were properly prepared.
- 2** The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with proper accounting practices.

Financial sustainability

- 3** The authority experiences financial stability through the commitment from partner authorities in the preparation of a five year financial plan.
- 4** The authority's expenditure for 2017/18 at £450,000 was significantly higher than that of the previous two years, when expenditure of £158,000 and £101,000 respectively was incurred. The increased expenditure was anticipated and related to fees in respect of legal action taken by the authority.

Governance

- 5** Governance arrangements should be enhanced through regular review of the operation of the local code of corporate governance.

Introduction

- 1.** This report is a summary of our findings arising from the 2017/18 audit of Aberdeen City and Shire Strategic Development Planning Authority (the authority). The report is divided into sections which reflect our public sector audit model.
- 2.** The scope of our audit was set out in our Annual Audit Plan presented to the authority in June 2018. In accordance with Audit Scotland's Code of Audit Practice, we explained at that time that the small body clause applies to the authority. The main elements of the 2017/18 audit therefore included:
 - assurances to support our opinion on the annual accounts
 - consideration of the appropriateness of the disclosures in the annual governance statement
 - a review of financial sustainability.
- 3.** The authority has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices.
- 4.** Our responsibilities as independent auditor appointed by the Accounts Commission are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice \(2016\)](#), and supplementary guidance, and International Standards on Auditing in the UK.
- 5.** As public sector auditors, we give independent opinions on the annual accounts. We also review and provide conclusions on the effectiveness of the authority's arrangements for securing financial sustainability and corporate governance.
- 6.** Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).
- 7.** This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to their attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.
- 8.** Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation.
- 9.** We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and the 2017/18 audit fee of £2,810 as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

10. This report is addressed to both the authority and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk.

11. We would like to thank all management and staff who have been involved in our work for their co-operation and assistance during the audit.

Part 1

Audit of 2017/18 annual accounts



Main judgement

In our opinion, the authority's financial statements give a true and fair view and were properly prepared. We provided unqualified audit opinions on the accounts.

The audited part of the remuneration report, management commentary and annual governance statement are all consistent with the financial statements and prepared in accordance with proper accounting practices.

Audit opinions on the annual accounts

12. The annual accounts for the year ended 31 March 2018 were approved by the authority on 26 September 2018. We reported, within our independent auditor's report that, in our opinion:

- The financial statements give a true and fair view and were properly prepared
- The management commentary and annual governance statement were all consistent with the financial statements and properly prepared in accordance with the guidance.

13. We have nothing to report in respect of: misstatements in information other than the financial statements; the adequacy of accounting records; or the information and explanations we received.

Submission of the annual accounts for audit

14. We received the unaudited financial statements on 27 June 2018 in line with our agreed audit timetable.

15. The Treasurer is also the Head of Finance for Aberdeenshire Council and consequently, his team provides finance and accounting support to the authority. The working papers provided with the unaudited accounts were of a good standard and this helped ensure that the audit of the annual accounts ran smoothly.

Risks of material misstatement

16. [Appendix 2](#) provides a description of those assessed risks of material misstatement that were identified during the planning process.

The annual accounts are the principal means of accounting for the stewardship of resources.

Materiality

17. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement. It is affected by our perception of the financial information needs of users of the financial statements.

18. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

19. On receipt of the annual accounts we reviewed our planning materiality calculations and concluded that they remained appropriate.

Exhibit 2

Materiality values

Materiality level	Amount
Overall materiality - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It was set at 1% of gross expenditure for the year ended 31 March 2018.	£2,800
Performance materiality - This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement we have calculated performance materiality at 70% of overall materiality.	£2,000
Reporting threshold - We are required to report to those charged with governance on all unadjusted misstatements in excess of the 'reporting threshold' amount. This has been calculated at 5% of overall materiality.	£140

Significant findings

20. International Standard on Auditing (UK and Ireland) 260 requires us to communicate to you significant findings from the audit. Following discussions with Finance, disclosures within the Remuneration Report were extended to ensure the information was reported in line with the categories of pay required by the Local Authority Accounts (Scotland) Regulations 2014 (2014 Regulations).

21. While a number of presentational changes were made throughout the accounts, no misstatements were identified and there were no unadjusted errors which require to be reported.

Management commentary, annual governance statement and remuneration report

22. The *Code of Audit Practice 2016* requires bodies to prepare and publish, along with their financial statements, an annual governance statement, management commentary and a remuneration report that are consistent with the disclosures made in the financial statements. From 2016/17, in giving an unqualified audit opinion, we are also confirming that these statements have been prepared in accordance with relevant regulations and/or guidance.

23. During the year, the authority adopted a local Code of Governance in line with the CIPFA/SOLACE guidance 'Delivering good Governance in Local Government Framework'. In future, the authority will conduct a review against the Code on an annual basis as part of the preparatory work undertaken for its annual governance statement. This review will also meet the requirements of the 2014 Regulations in respect of an annual effectiveness review of internal controls.

24. Based on our knowledge and work performed, we concluded that the content of the management commentary, annual governance statement and remuneration report are consistent with the financial statements.

Responsibilities in respect of the annual accounts

25. The 2014 Regulations require a local authority body to publish a public notice on its website that includes details of the period the unaudited accounts are available for public inspection and the process for making an objection to the accounts. The notice must remain on the website throughout the statutory 3 week inspection period. The authority largely complied with the relevant regulations.

Part 2

Financial sustainability



Main judgement

The authority experiences financial stability through the commitment from partner authorities in the preparation of a five year financial plan.

Financial performance in 2017/18

26. The authority set its 2017/18 budget in March 2017 with planned funding from partner councils largely being maintained at the same level as previous years. Actual expenditure was higher than anticipated in 2017/18 due to legal fees associated with authority's appeal to the Supreme Court in respect of the Strategic Transport Fund. This related to a legal challenge by a local landowner in response to the authority's adoption of supplementary planning guidance.

27. The authority's budget for 2017/18 was £410,000. Future budgets will revert to the levels experienced in recent years, ranging from £150,000 to £200,000 providing a degree of financial stability in the short term.

28. Reserves of £137,000, held at 31 March 2017, were earmarked to meet expected legal costs and have consequently been utilised during the year.

Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Part 3

Governance



Main judgement

Governance arrangements should be enhanced through regular review of the operation of the local code of corporate governance.

Governance arrangements

29. The authority was designated under the Planning etc (Scotland) Act 2006 and required Aberdeen City and Aberdeenshire Councils to jointly prepare and keep under review a strategic development plan for the strategic development plan area.

30. The board has 12 members, six each from Aberdeenshire and Aberdeen City Councils and it met on four occasions during 2017/18. We review minutes of board meetings and periodically observe meetings for a greater insight into proceedings.

Financial regulations

31. Revised Financial Regulations were approved by the authority in February 2018 but have not yet been updated to reflect the requirements of the 2014 Regulations as highlighted in our 2016/17 report.

32. For example, the revised financial regulations require the audited accounts to be submitted to the board within two months of being certified. This practice was replaced in the 2014 Regulations by the requirement for the authority to consider the audited accounts and to approve them for signature prior to 30 September each year. Thereafter, the audited accounts and the auditor's annual report are to be published on the authority's website.

33. Furthermore, the 2014 Regulations require the authority to review its system of internal control on an annual basis prior to the authority's approval of the annual governance statement. In practice, the authority uses the financial systems of Aberdeenshire Council and therefore draws assurance from the council's chief internal auditor's review of the council's systems. There is merit in the authority considering its specific arrangements in view of the requirements of the 2014 Regulations to ensure that it can demonstrate compliance.

Governance is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making, and transparent reporting of financial and performance information.

Recommendation 1

Local code of corporate governance

34. With effect from 2016/17, the CIPFA/SOLACE 'Delivering Good Governance: Framework (2016)' applies to all local government bodies. The professional bodies have acknowledged that an annual review against the framework will meet the requirements of an effectiveness review under the 2014 Regulations.

35. The framework sets out a range of core and sub principles for good governance including behaviour, openness and transparency, leadership capacity, decision making and risk and internal control. While the authority should continue to take assurance from the council in respect of financial systems and internal controls, the framework is wider and extends to the vision, leadership and operation of the authority and its board. It is therefore appropriate that the authority puts plans in place to conduct an annual review.

Recommendation 2

Internal audit

36. The authority's internal auditor is Aberdeenshire Council's chief internal auditor. In respect of 2017/18, he concluded that reasonable assurance could be taken from the financial controls the authority has in place based on his programme of work on council systems.

37. As external auditors for the council, we concluded that internal audit operated in accordance with Public Sector Internal Audit Standards (PSIAS) and has sound documentation, standards and reporting procedures in place.

Financial management

38. Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. It is the authority's responsibility to ensure that its financial affairs are conducted in a proper manner.

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

- the Treasurer has sufficient status to be able to deliver good financial management
- financial regulations and standing orders are comprehensive, current and promoted within the authority
- reports monitoring performance against budgets are accurate and provided regularly to budget holders.

40. Overall, financial management within the authority is considered to be satisfactory, with appropriate monitoring reports being regularly submitted to the board for scrutiny.

Appendix 1

Action plan 2017/18



Page/
para
no.

Issue/risk

Recommendation

Agreed management
action/timing

<p>11/33</p>	<p>The Financial Regulations should be updated to reflect the requirements of the 2014 Regulations e.g. consideration and approval of audited accounts, responsibility for annual review of internal controls.</p> <p>Risk: the authority does not comply with statutory requirements.</p>	<p>Update the Financial Regulations to reflect the requirements of the 2014 Regulations.</p>	<p>Updated Financial Regulations to be presented to the December 2018 Board Meeting.</p> <p>Treasurer</p>
<p>12/35</p>	<p>Assurances on the effectiveness of the authority's governance arrangements focus on the council's financial systems and internal controls. The review would be strengthened by the inclusion of the authority's own operational arrangements.</p> <p>Risk: the authority does not meet the expectations of the Delivering Good Governance Framework.</p>	<p>Undertake an annual review of the operation of the Code of Governance and share the results of the review with the Authority.</p>	<p>To present to the Board, during the early part of the 2019/20 financial year, a report / reports that will make Members aware of the expectations placed upon them with regard to the Delivering Good Governance Framework.</p> <p>Treasurer</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion.

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls in order to change the position disclosed in the financial statements.</p>	<ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable in this instance. 	<ul style="list-style-type: none"> Based on audit work undertaken, no issues were identified.

Aberdeen City and Shire Strategic Development Planning Authority

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