

Aberdeen City and Shire Strategic Development Planning Authority

Report to Members and the Controller of Audit on the 2009/10 Audit

October 2010



 AUDIT SCOTLAND

Aberdeen City and Shire Strategic Development Planning Authority

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Audit**

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Introduction

1. This report summarises the findings from our 2009/10 audit of the Aberdeen City and Shire Strategic Development Planning Authority. The scope of the audit was set out in our Annual Audit Plan issued in April 2010.
2. The financial statements of the Authority are the means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. It is the responsibility of the Authority to prepare financial statements that give a true and fair view of its financial position and the income and expenditure for the period to 31 March 2010.
3. The members and officers of the Authority are responsible for the management and governance of the organisation. As external auditors, we review and report on the arrangements in place and seek to gain assurance that:
 - the financial statements have been prepared in accordance with statutory requirements and that proper accounting practices have been observed
 - the Authority's system of recording and processing transactions provides an adequate basis for the preparation of the financial statements and the effective management of assets and interests
 - the Authority has adequate governance arrangements which reflect the three fundamental principles of openness, integrity and accountability
 - the systems of internal control provide an appropriate means of preventing or detecting material misstatement, error, fraud or corruption
 - the Authority has proper arrangements for securing best value in its use of resources.



Financial statements

Introduction

4. The financial statements of the Authority are the means by which it accounts for its stewardship of the resources made available to it and its financial performance in the use of these resources. It is the responsibility of the Authority to prepare financial statements that provide a true and fair view of its financial position and the income and expenditure for the year.
5. In this section we summarise key outcomes from our audit of the Authority's financial statements for 2009/10. We also summarise key aspects of the Authority's reported financial position and performance to 31 March 2010 and provide an outlook on future financial reporting issues.

Overall conclusion

6. We have given an **unqualified** opinion on the financial statements of Aberdeen City and Shire Strategic Development Planning Authority for 2009/10, concluding that the financial statements:
 - give a true and fair view of the financial position of the Authority and its income and expenditure for the year then ended; and
 - have been properly prepared in accordance with the Local Government (Scotland) Act 1973.
7. The findings from our audit were set out in our ISA 260 '*Communication of audit matters to those charged with governance*' report which was submitted to the Authority Board on 10 September 2010. Two errors were identified during the audit and were corrected in the audited financial statements. There were no unadjusted misstatements to bring to the attention of members.
8. The Authority is required to follow the Code of Practice on Local Authority Accounting in the United Kingdom – A Statement of Recommended Practice (the 'SORP'). Overall, we were satisfied that the Authority prepared its financial statements in accordance with the 2009 SORP. There were, however, some changes made to the financial statements submitted for audit to improve their presentation.
9. The Authority's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June. The accounts were certified by the target date of 30 September 2010 and are now available for presentation to members and publication.



Financial position

Operating performance 2009/10

10. The Authority's net operating expenditure in 2009/10 was £0.248 million. This was met by requisitions from constituent authorities and government grants totalling £0.158 million, resulting in an income and expenditure account deficit of £0.090 million. This deficit reflects the Board's decision, in December 2009, to return £0.090 million of the accumulated surplus to constituent authorities.
11. The Treasurer summarises performance against budget in the Explanatory Foreword to the accounts. Actual expenditure was £0.068 million (21.5%) less than budget due to the secondment of a senior officer to Aberdeen City Council, the use of in-house resources rather than external consultants and the reduced need for public notices and press advertisements.

Legality

12. Each year we request written confirmation from the Treasurer that the Authority's financial transactions accord with relevant legislation and regulations. Significant legal requirements are also included in audit programmes. The Treasurer has confirmed that, to the best of his knowledge and belief and having made appropriate enquiries of other senior officers, the financial transactions of the Authority were in accordance with the relevant legislation and regulations governing its activities. There are no additional legality issues arising from our audit which require to be brought to members' attention.

Financial outlook

National economic conditions

13. The UK economy is in its longest recession on record and the public sector is now facing deep and prolonged cuts in funding. At a UK level, real term reductions of 2.3 per cent each year are projected for Departmental Expenditure Limit (DEL) budgets between 2011 and 2014. Current forecasts are that any real term growth in public spending over the next two spending review periods (2011 to 2018) will continue to be constrained and will not return to the levels seen over the last decade.
14. Whilst the Scottish Government has implemented an economic recovery programme to support the economy through this period of decline, demand for public services continues to rise adding to the ongoing strain on public sector resources. The Authority will not be immune to these financial pressures and will need to identify ways of delivering services in light of future funding constraints.



International Financial Reporting Standards (IFRS) adoption

15. Local government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2010/11. Although there are no formal deadlines in advance of 30 June 2011 when the 2010/11 accounts are due, the early production of a restated opening balance sheet and shadow accounts is accepted good practice.

16. Last year, we were advised that the Authority planned to rely on transferring the work undertaken for Aberdeenshire Council to ensure its full compliance with the new accounting requirements. There has, however, been significant slippage in Aberdeenshire Council's timetable for the move to IFRS and this may impact on the Authority's ability to meet the new requirements in 2010/11.

Key risk area 1



Governance

Introduction

17. In this section we comment on key aspects of the Authority's governance arrangements during 2009/10.

Overview of arrangements in 2009/10

18. Corporate governance is concerned with structures and processes for decision making, accountability, control and behaviour at the upper levels of the organisation. Last year we highlighted that the Authority has a responsibility to put arrangements in place for the conduct of its affairs, ensure the legality of activities and transactions and to monitor the adequacy and effectiveness of these arrangements in practice. We were advised that the Authority was developing its own corporate governance arrangements and that they would be in place during 2009/10. However, this has not happened and the Authority continues to rely on the arrangements in place within constituent authorities to ensure it meets its corporate governance responsibilities.

Statement on the system of internal financial control

19. A Statement on the System of Internal Financial Control is included within the annual financial statements, and highlights the Treasurer's view that he is satisfied that the Authority has a sound system of internal financial control in place and, at this time, there are no material weaknesses or failures identified that could have a material effect on the operation of the Authority.
20. The statement highlights that Aberdeen City and Shire Strategic Development Planning Authority operates the financial systems of Aberdeenshire Council and that these systems are subject to review by both the council's internal audit section and the council's external auditor. The Treasurer has taken assurance from this work in forming his opinion on the internal financial control system. The statement complies with accounting requirements and is not inconsistent with the findings of our audit.

Systems of internal control

21. It is the responsibility of the Authority's management to maintain adequate financial systems and associated internal controls. The auditor evaluates significant internal financial control systems for the purpose of giving an opinion on the financial statements and as part of a review of the adequacy of governance arrangements.



22. As noted above, the Authority's financial transactions are processed through Aberdeenshire Council's financial systems. Our review of these systems was conducted as part of the audit of Aberdeenshire Council, supplemented by specific audit work on the Authority's financial statements. Overall, there are no material issues of concern in relation to the operation of the main financial systems.

23. Aberdeen City and Shire Strategic Development Planning Authority is set up as a cost centre within Aberdeenshire Council's financial ledger and not as a separate organisation. In our view, there is a risk that the Authority's transactions may not be properly reflected within the financial ledger, resulting in the misstatement of the Authority's financial position within the financial statements. As part of our 2009/10 audit we requested and received written confirmation from the Treasurer that all material agreements and transactions undertaken by the authority were properly reflected in the 2009/10 financial statements. In addition, the Treasurer has confirmed that the position will continue to be monitored and corrective action taken as necessary.



Final remarks

24. The members of Aberdeen City and Shire Strategic Development Planning Authority are invited to note this report. We would be pleased to provide any additional information that members may require.

25. Attached is an action plan setting out the key risks identified by the audit which we are highlighting for the attention of members. In response, officers have considered the issues and have agreed to take the specific steps set out in the column headed 'planned management action'. On occasion, officers may choose to accept the risk and take no action. Alternatively, there may be no further action that can be taken to minimise the risk. Where appropriate, the action plan clearly sets out management's response to the identified risks

26. The co-operation and assistance given to us by officers of the Authority is gratefully acknowledged.

Audit Scotland
October 2010



Appendix: Action Plan

Key Risk Areas and Planned Management Action

Action Point	Refer Para. No	Risk Identified	Management Response and Planned Action	Responsible Officer	Target Date
1	16	<p>Adoption of International Financial Reporting Standards (IFRS)</p> <p>Local government will move from UK Generally Accepted Accounting Principles to International Financial Reporting Standards (IFRS) with effect from 2010/11. The Authority needs to ensure it has plans in place to enable it to comply with the new requirements of IFRS in 2010/11.</p> <p><i>Risk: the Authority will be unable to produce IFRS compliant financial statements within the required timescales.</i></p>	<p>Steps are being taken to ensure that all necessary work is undertaken by the required date.</p>	Treasurer	31 March 2011