

# Aberdeen City and Shire Strategic Development Planning Authority

Annual Audit Plan 2010/11

March 2011



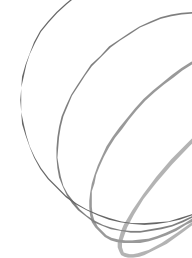
 AUDIT SCOTLAND



# Aberdeen City and Shire Strategic Development Planning Authority

**Annual Audit Plan 2010/11**





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# Summary Plan

## Summary of planned audit activity

Based on our analysis of the risks facing Aberdeen City and Shire Strategic Development Planning Authority (the Authority) our planned work in 2010/11 includes:

- an audit of the financial statements and provision of an opinion on whether:
  - they give a true and fair view of the financial position of the Authority as at 31 March 2011 and its income and expenditure for the year then ended
  - the accounts have been properly prepared in accordance with the Local Government (Scotland) Act 1973 and the 2010 Code including full adoption for the first time of International Financial Reporting Standards (IFRS)
- a review and assessment of the Authority's governance and performance arrangements.

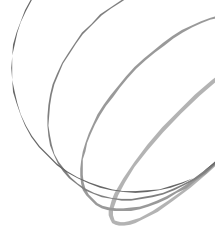
## Introduction

1. Our audit is focused on the identification and assessment of the key challenges and risks to Aberdeen City and Shire Strategic Development Planning Authority in achieving its business objectives. We also assess the risk of material misstatement or irregularity in the Authority's financial statements. This report summarises specific governance and other risks that may affect the financial statements of the Authority and sets out the audit work that we propose to undertake in 2010/11 to address these. Our annual audit plan reflects:

- the risks and priorities facing Aberdeen City and Shire Strategic Development Planning Authority
- current national risks relevant to local circumstances
- the impact of changing international auditing and accounting standards
- our responsibilities under the Code of Audit Practice as approved by the Auditor General for Scotland and the Accounts Commission
- issues brought forward from previous audit reports.

## Our responsibilities

2. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and are guided by the auditing profession's ethical guidance.



3. Audit in the public sector goes beyond simply providing assurance on the financial statements and the organisation's internal control environment. We are also required to provide a view on performance, regularity and the organisation's use of resources. In doing this, we aim to support improvement and accountability.
4. In carrying out our audit, we seek to gain assurance that the Authority:
  - has good corporate governance arrangements in place which reflect the three fundamental principles of openness, integrity and accountability
  - has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements and the effective management of its assets and interests
  - prepares financial statements which give a true and fair view of its financial position as at 31 March 2011 and income and expenditure for the year then ended in accordance with the Local Government (Scotland) Act 1973 and other applicable laws and regulations, including the 2010 'Code of practice on local authority accounting in the United Kingdom – A statement of recommended practice' (the Code)
  - has systems of internal control which provide an adequate means of preventing or detecting material misstatement, error, fraud or corruption
  - complies with established policies, procedures, laws and regulations
  - proactively manages and reviews its performance in line with its strategic and operational objectives
  - has made proper arrangements for securing best value in its use of resources.

## **Our approach to the audit of the accounts**

5. Our audit approach is based on an understanding of the Authority's characteristics, responsibilities and principal activities, risks and governance arrangements, and identification of the key audit risks and challenges in the local government sector generally. This approach includes:
  - understanding the Authority's business and the risk exposure which could impact on the financial statements
  - assessing the key systems of internal control, and considering how risks in these systems could impact on the financial statements
  - identifying major transaction streams, balances and areas of estimation, understanding how the Authority will include these in the financial statements and developing procedures to audit these
  - assessing the risk of material misstatement in the financial statements in conjunction with our evaluation of inherent risk, the control environment and control risk as part of our risk assessment

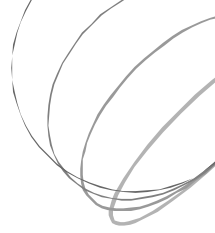




- determining the nature, timing and extent of our testing programme to provide us with sufficient appropriate audit evidence as to whether the financial statements are free of material misstatement.
6. Through this approach we have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action and reliance on systems of internal control. Management action being relied on for 2010/11 includes:
- comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
  - clear responsibilities for provision of accounts and working papers being agreed
  - delivery of unaudited accounts to agreed timescales
  - a comprehensive working papers package and supporting records to demonstrate full compliance with the requirements of IFRS
7. Our approach to the audit of the financial statements is based on an integrated assessment of risk across the Code of Audit Practice responsibilities in relation to governance, performance and opinion.
8. On completion of the audit we will provide elected members and the Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

## **Responsibility for the preparation of accounts**

9. It is the responsibility of the Authority and Treasurer, as Accountable Officer, to prepare the financial statements in accordance with the Code. This means:
- acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority
  - maintaining proper accounting records
  - preparing financial statements timeously which give a true and fair view of the financial position of the Authority as at 31 March 2011 and its income and expenditure for the year then ended
  - preparing an Explanatory Foreword



## Format of the accounts

10. The financial statements should be prepared in accordance with the Code which constitutes proper accounting practice for the purposes of section 12 of the Local Government in Scotland Act 2003.

## Audit issues and risks

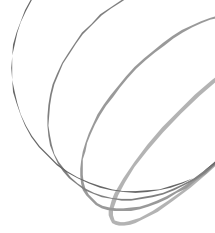
11. Based on our discussions with staff and a review of supporting information, we identified the following main risk areas for your organisation.

## Financial management and financial pressures

12. Local government faces substantial real-term reductions in financing over the next three years and beyond. The need for constituent authorities to address challenging funding gaps will place considerable pressure on the Authority's ability to continue to provide the current level of service. Strong financial management and governance arrangements will be increasingly important as the Authority seeks to balance continued service delivery with reduced funding.

## Accounts presentation and disclosure

13. 2011 is the first year that the local authority accounting code is based on international financial reporting standards (IFRS). The move to an IFRS based Code from a UK GAAP based Statement of Recommended Practice (SORP) has resulted in a number of significant changes in accounting practice. The key changes include:
  - a greater emphasis on depreciation of asset components, and a new classification of assets held for sale
  - changes in the classification of leases, and a new requirement to account for arrangements containing a lease
  - a change in accounting treatment for grants and contributions used to fund capital expenditure
  - a requirement to recognise a liability for untaken annual leave
  - new disclosure requirements for accounting standards not yet adopted, key assumptions and judgements, changes in respect of prior period adjustments, and operating segments.
14. The Authority plans 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. It is essential that the Authority ensures that its financial statements work programme and templates have been updated to reflect all the relevant changes in presentation and disclosure in the 2010/11 financial statements, in particular those related to the application of IFRS.

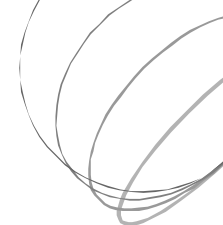


## Summary assurance plan

15. In most cases, actions to manage these risks are either planned or already underway within the organisation. Details of the sources of assurance that we have received for each of these risks and any audit work we plan to undertake is set out in Appendix A. In the period prior to the submission of the unaudited financial statements, we will liaise with senior officers on any new or emerging issues.

## Materiality

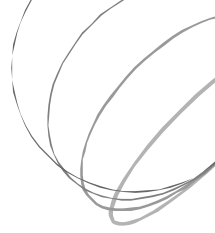
16. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
17. International Standard on Auditing 320 states that, *“Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.”*
18. When considering, in the context of a possible qualification to the audit opinion, whether the misstatement of an item, or a number of items taken together, is material in terms of its monetary value, we use professional judgement, experience and internal guidelines from peers as broad guidance with regard to considering whether the results of tests of detail are material.
19. An item may be judged material for reasons other than its monetary or quantitative value. An inaccuracy, which would not normally be regarded as material by amount, may be important for other reasons. When such an item affects a critical point in the accounts, its materiality has to be viewed in a narrower context (for example the failure to achieve a statutory requirement, an item contrary to law, or areas affected by central government control). Again we use professional judgement, experience and internal guidelines from peers to determine when such matters would fall to be covered in an explanatory paragraph, rather than as a qualification to the audit opinion.



## Reporting arrangements

20. Under the Local Government (Scotland) Act 1973, there is a requirement for unaudited financial statements to be presented to the Authority Board and the Controller of Audit within 3 months of the financial year end i.e. 30 June. The non-statutory target for audit completion is 30 September. To achieve this target, it is critical that a timetable for the audit of the accounts is agreed with us. An agreed timetable is included at Appendix B of this plan, which takes account of submission requirements, planned Authority Board meeting dates and audit resources.
21. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. We will provide an independent auditor's report to Aberdeen City and Shire Strategic Development Planning Authority and the Accounts Commission for Scotland that the audit of the financial statements has been completed in accordance with applicable statutory requirements, including an opinion on those financial statements.
22. An annual report to elected members and the controller of audit will also be produced to summarise all significant matters arising from the audit and overall conclusions about the Authority's management of key risks. The draft annual report will be sent to the Treasurer for confirmation of the factual accuracy of the report's contents. The final agreed annual report will be issued to the Treasurer, Chief Internal Auditor and Audit Scotland's Performance Audit Group. All annual reports produced by Audit Scotland are published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).
23. The full range of outputs to be delivered by the audit team are summarised below:

Planned outputs	Target delivery date
<b>Governance</b>	
Annual Audit Plan	31 March 2011
<b>Financial statements</b>	
Report to the Authority Board in terms of ISA 260 (Communication of audit matters to those charged with governance)	9 September 2011
Independent auditor's report on the financial statements	26 September 2011
Annual report to elected members and the Controller of Audit	31 October 2011

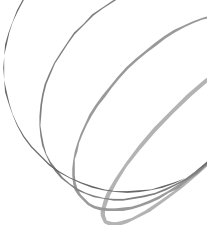


## Quality control

24. We are committed to ensuring that our audit reflects best practice and demonstrates best value to the Authority and the Accounts Commission. We operate a strong quality control framework that seeks to ensure that the Authority receives a high quality service. The framework is embedded in our organisational structures and processes and includes an engagement lead for every client; in your case this is Maggie Bruce, who is responsible for ensuring that our work is carried out on time and to a high quality standard.
25. As part of our commitment to quality and continuous improvement, we may periodically seek your views. We would be grateful for any feedback on our services.

## Fees and resources

26. Our agreed fee for the 2010/11 audit of Aberdeen City and Shire Strategic Development Planning Authority is £3,020. Our fee covers:
  - all of the work and outputs described in this plan
  - a contribution towards the costs of national performance studies and statutory reports by the Controller of Audit and the work of the Accounts Commission
  - attendance at key Authority Board meetings
  - access to advice and information on relevant audit issues
  - access to workshops/seminars on topical issues
  - travel and subsistence costs.
27. In determining the agreed fee we have taken account of the Authority's risk exposure and the management assurances in place. We have assumed receipt of the draft accounts and working papers by 30 April 2011. If the draft accounts and papers are late or do not adequately reflect the requirements of IFRS or agreed management assurances are unavailable, we reserve the right to charge an additional fee for further audit work. An additional fee will also be required in relation to any work or other significant exercises not within our planned audit activity.
28. Fiona Kordiak, Director - Audit Services, is the appointed auditor for all local authorities audited by Audit Scotland. In practice, this operates by delegating management and certification responsibilities to Assistant Directors and Senior Audit Managers. For Aberdeen City and Shire Strategic Development Planning Authority, these responsibilities have been delegated to Maggie Bruce.

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29. The local audit team will be led by Colin Morrison who will be responsible for the day to day management of the audit and who will be your primary contact. Details of the experience/skills of our team are provided at Appendix C. The core audit team will call on other specialist and support staff, as necessary.

## **Independence and objectivity**

30. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships within the audit team.
31. We comply with ethical standards issued by the Auditing Practices Board and with Audit Scotland's requirements in respect of independence and objectivity, as summarised at Appendix D.



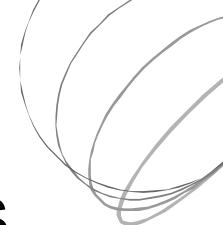
**March 2011**

# Appendix A - Summary assurance plan

In this section we identify a range of operational risks facing the Authority, the related source of assurance received and the audit work we propose to undertake to secure additional assurance. The management of risk is the responsibility of the Authority and its officers, with the auditor's role being to review the arrangements put in place by management. Planned audit work, therefore, will not necessarily address all residual risks.

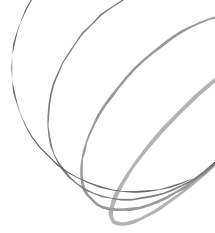
Risk	Source of assurance	Planned audit action
<b>Financial management and financial pressures</b>		
<p>Local government faces substantial real-term reductions in financing over the next three years and beyond. The need for constituent authorities to address challenging funding gaps will place considerable pressure on the Authority's ability to continue to provide the current level of service.</p> <p><b>Risk: the Authority will be unable to maintain the current level of service provision whilst addressing the challenging funding gaps for 2011/12 and beyond.</b></p>	<p>Both constituent authorities are committed to supporting the work of the SDPA. The budget for 2011/12 was recently approved along with indicative budgets for 2012/13 and 2013/14.</p> <p>The Treasurer will continue to work with the SDPA to prepare risk analyses of the impact of any future funding changes so that the constituent authorities can consider the implications for policy outcomes as part of their decision making process.</p>	<ul style="list-style-type: none"> <li>▪ track management assurance and report results in the annual report to members.</li> </ul>
<b>Accounts presentation and disclosure</b>		
<p>The Authority is required to prepare IFRS compliant accounts for the first time in 2010/11. It is essential that financial statements work programme and templates are updated to reflect all the relevant changes in presentation and disclosure in the 2010/11 financial statements</p> <p><b>Risk: the Authority will be unable to produce IFRS compliant financial statements within the required timescales.</b></p>	<p>Plans are in place to produce IFRS compliant accounts by 30 April 2011. Given the size of the Authority, a separate opening balance sheet and shadow accounts will not be prepared.</p>	<ul style="list-style-type: none"> <li>▪ early financial statements planning meeting</li> <li>▪ review of IFRS shadow accounts</li> <li>▪ early discussion of emerging issues.</li> </ul>

# Appendix B - Financial statements audit timetable



Key stage	Date
Provision of closedown procedures to audit	11 February 2011
Meeting with officers to clarify expectations of detailed working papers and financial system reports	31 March 2011
Latest submission of unaudited financial statements to external audit together with working papers package, including completed ACOP checklist	30 April 2011
Planned Authority Board approval of unaudited financial statements	27 May 2011
Testing and review of internal control systems and transactions	31 May 2011
Submission of unaudited financial statements to the Controller of Audit	30 June 2011
Progress meetings with lead officers on emerging issues	As required during audit process
Latest date for submission of matters arising from the financial statements audit	25 July 2011
Latest date for final clearance meeting with the Treasurer	4 August 2011
Latest date for submission of amended accounts and draft letter of representation	5 August 2011
Independent Auditor's Report and Report to Members on the audit of the financial statements (ISA 260) issued	9 September 2011
Authority Board consider ISA 260 report	23 September 2011
Independent Auditor's Report signed	26 September 2011
Annual audit report issued	31 October 2011
Annual report and certified accounts presented to the Authority Board	2 December 2011





# Appendix C - Audit team

Summarised curriculum vitae for each core team member are set out below:

***Maggie Bruce MA CA***

***Senior Audit Manager***

Maggie has over 20 years experience of public sector audit with Audit Scotland, covering local government, health and the further education sectors. Prior to joining Audit Scotland, Maggie trained as an auditor in the private sector.

***Colin Morrison MA CPFA***

***Senior Auditor***

Colin has 11 years experience of public sector audit with Audit Scotland, covering the local government and health sectors.

# Appendix D - Independence and objectivity

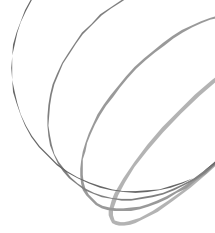
Auditors appointed by the Auditor General for Scotland are required to comply with the Code of Audit Practice and standing guidance for auditors, which defines the terms of appointment. When auditing the financial statements, auditors are also required to comply with the auditing and ethical standards issued by the Auditing Practices Board (APB). The main requirements of the Code of Audit Practice, standing guidance for auditors and the standards are summarised below.

International Standards on Auditing (UK and Ireland) 260 (Communication of audit matters to those charged with governance) requires that the appointed auditor communicates:

- a statement that the engagement team and others in the firm as appropriate, the firm, and, when applicable, network firms have complied with the APB's Ethical Standards for auditors
- all relationships and other matters between the firm, network firm, and the entity that, in the auditor's professional judgement, may reasonably be thought to bear on independence. This shall include total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. These fees shall be allocated to categories that are appropriate to assist those charged with governance in assessing the effect of services on the independence of the auditor
- the related safeguards that have been applied to eliminate identified threats to independence or reduce them to an acceptable level.

The standard defines 'those charged with governance' as 'the person(s) or organisation(s) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process.' In your case, the appropriate addressee of communications from the auditor to those charged with governance is the Authority Board. The auditor reserves the right to communicate directly with members on matters which are considered to be of sufficient importance.

Audit Scotland's Code of Audit Practice requires appointed auditors to carry out their work independently and objectively, and ensure they do not act in any way that might give rise to, or could reasonably be perceived to give rise to, a conflict of interest. Appointed auditors and their staff should avoid entering into any official, professional or personal relationships which may impair their independence, or might lead to a reasonable perception that their independence could be impaired.



The standing guidance for auditors includes a number of specific requirements. The key requirements relevant to this audit appointment are as follows:

- during the currency of an appointment, auditors should not perform non-audit work for an audited body, consultancy or otherwise, without the prior approval of Audit Scotland
- the appointed auditor and key staff should, in all but exceptional circumstances, be changed at least once every five years in line with Audit Scotland's rotation policy
- the appointed auditor and audit team are required to carry out their duties in a politically neutral way, and should not engage in high profile public party political activity
- the appointed auditor and audit team must abide by Audit Scotland's policy on gifts and hospitality, as set out in the Audit Scotland Staff Code of Conduct.