

## ITEM 10 – ANNUAL AUDIT PLAN 2016 / 2017

Report by: Alice Miles, Acting SDP Manager

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### Purpose

This Report presents SESplan's Annual Audit Plan for 2016 / 2017 for SESplan Joint Committee information. The Annual Audit Plan is attached as Appendix 1.

### Recommendations

It is recommended that the SESplan Joint Committee:

- a) Notes the Annual Audit Plan as set out within Appendix 1.

### Financial Implications

As set out below.

### Legal & Risk Implications

All risks are detailed in the SESplan Risk Register and reported to Joint Committee on an annual basis.

### Policy & Impact Assessment

No separate impact assessment is required.

## 1. The Annual Audit

- 1.1 The Accounts Commission is the public spending watchdog for local government, holding councils in Scotland to account and helping them to improve.

1.2 Authorities are expected to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services. 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.

1.3 The Annual Audit plan attached as Appendix 1 to this Report contains an overview of the planned scope and timing of the annual audit, ensuring it is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#) and any other relevant guidance. The Plan identifies that Audit Scotland will provide an opinion on SESplan financial statements and related matters including an assessment of the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

1.4 The SESplan Joint Committee is asked to note that Audit Scotland will now undertake the annual audit in accordance with the plan set out in Appendix 1.

## **2. Next Steps**

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2.1 The Local Authority Accounts (Scotland) Regulations 2014 state that best practice is for the Unaudited Accounts to be considered at Committee prior to the 30 June or no later than the 31 August each year. The Unaudited Accounts will therefore be brought to the June meeting of the SESplan Joint Committee for consideration.

- 2.2 Under the SESplan Constitution an Annual Report is required to be prepared on the work of the Joint Committee on or around the 31 August each year. Alongside the Annual Report and developed by the Heads of Planning Scotland and supported by Scottish Government the Planning Performance Framework (PPF) was introduced by planning authorities in 2012. The annual PPF Report is required to be submitted by the 31 July each year. Again, the Annual / PPF Report will be brought to the June meeting of the SESplan Joint Committee for consideration.
- 2.3 The Audited Accounts require to be considered by the Joint Committee by the 30 September each year with the Local Authority Accounts (Scotland) Regulations 1985 requiring that they are laid before a meeting of the authority within two months of receipt of the documents. The Audited Accounts and report of the Annual Audit for 2016 / 2017 will be brought to the September meeting of the Joint Committee.

## **Appendices**

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Appendix 1                      Annual Audit Plan 2016 / 2017

## **Report Contact**

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# Edinburgh and South East Scotland Strategic Development Planning Authority

Annual Audit Plan 2016/17

 AUDIT SCOTLAND

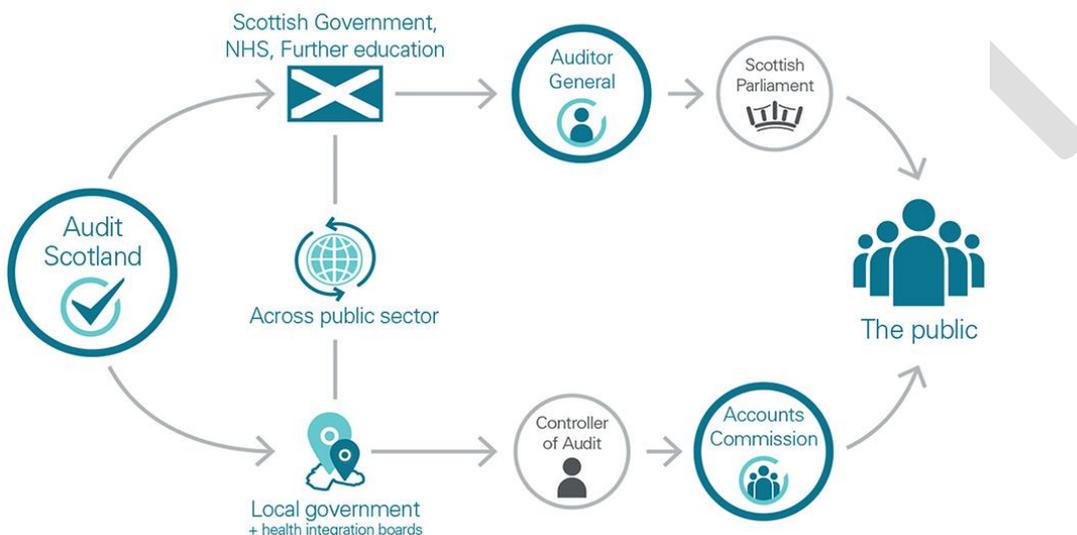
Prepared for Edinburgh and South East Scotland Strategic Development Planning Authority

February 2017

# 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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# Risks and planned work

1. This annual audit plan contains an overview of the planned scope and timing of our audit and is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and any other relevant guidance. This plan identifies our audit work to provide an opinion on the financial statements and related matters and meet the wider scope requirements of public sector audit. The wider scope of public audit contributes to conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

## Audit risks

2. Based on our discussions with staff and a review of supporting information we have identified the following main risk areas for Edinburgh and South East Scotland Strategic Development Planning Authority (SESplan). We have categorised these risks into financial risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1

Audit Risk	Management assurance	Planned audit work
<b>Financial statement issues and risks</b>		
<p><b>1 Risk of management override of controls</b></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"> <li>Owing to the nature of this risk, assurances from management are not applicable in this instance.</li> </ul>	<ul style="list-style-type: none"> <li>Detailed testing of journal entries.</li> <li>Review of accounting estimates.</li> <li>Focused testing of accruals and prepayments.</li> <li>Evaluation of significant transactions that are outside the normal course of business.</li> </ul>
<p><b>2 Changes to key personnel and accounting requirements</b></p> <p>There have been a number of changes to key personnel during the year. This includes the retirement of the Manager (post vacant as at February 2017) and the accountant previously responsible for preparing the financial statements.</p> <p>As it will be new staff involved in the accounts process this year there is a risk that there will be omissions or errors which could impact on the completeness and accuracy of the financial statements.</p>	<ul style="list-style-type: none"> <li>An Acting SDP Manager was appointed in January 2017. Ongoing communication between the Acting SDP Manager and SESplan Accountant at Fife Council to ensure all expenditure is in accordance with the approved operating budget.</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing communication with finance staff to ensure they are aware of changes impacting on the 2016/17 accounts.</li> <li>Review of disclosure checklists.</li> <li>Review of account closedown procedures</li> <li>Detailed testing of transactions and year end balances above performance materiality.</li> </ul>

Audit Risk	Management assurance	Planned audit work
<b>Wider dimension risks</b>		
<p><b>3 User Access to Finance Systems</b></p> <p>The finance systems (Oracle ERP) used by SESplan are provided by Fife Council.</p> <p>The council's external auditor has highlighted a lack of regular user access review and scrutiny of user actions resulting in a risk of unauthorised transactions being processed. This is also a risk for SESplan.</p>	<ul style="list-style-type: none"> <li>Ongoing communication between the Acting SDP Manager and SESplan Accountant at Fife Council to ensure all expenditure is in accordance with the approved operating budget.</li> </ul>	<ul style="list-style-type: none"> <li>Detailed testing of transactions and balances above performance materiality.</li> </ul>

## Reporting arrangements

**3.** Audit reporting is the visible output for the annual audit. All annual audit plans and the outputs as detailed in [Exhibit 2](#), and any other outputs on matters of public interest will be published on our website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk).

**4.** Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officer(s) to confirm factual accuracy.

**5.** We will provide an independent auditor's report to SESplan and the Accounts Commission summarising the results of the audit of the financial statements. We will provide the SESplan and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit.

## Exhibit 2

### 2016/17 Audit outputs

Audit Output	Target date	Joint Committee Date
Annual Audit Report including ISA 260 requirements	18 September 2017	25 September 2017
Signed Independent Auditor's Report	26 September 2017	N/A

## Audit fee

**6.** The agreed audit fee for the 2016/17 audit of SESplan is £2,770. In determining the audit fee we have taken account of the risk exposure of SESplan, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited financial statements, with a complete working papers package by 30 June 2017.

**7.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

## Responsibilities

### Joint Committee and Treasurer

**8.** Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

**9.** The audit of the financial statements does not relieve management or the Joint Committee, as those charged with governance, of their responsibilities.

### Appointed auditor

**10.** Our responsibilities as independent auditor are established by the 1973 Act for local government and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.

**11.** Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements within the audited body to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

# Audit scope and timing

## Financial statements

**12.** The statutory financial statements audit will be the foundation and source for the majority of the audit work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of SESplan and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how SESplan will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free of material misstatement.

**13.** We will give an opinion on the financial statements as to:

- give a true and fair view in accordance with applicable law and the Code of practice on local authority accounting in the UK 2016-17 (the Code) of the state of affairs of SESplan and of its income and expenditure for the year
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the Code
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

## Materiality

**14.** Materiality defines the maximum error that we are prepared to accept and still conclude that that our audit objective has been achieved. It helps assist our planning of the audit and allows us to assess the impact of any audit adjustments on the financial statements. We calculate materiality at different levels as described below. The calculated materiality values for SESplan are set out in [Exhibit 3](#).



## Exhibit 3

### Materiality values

Materiality level	Amount
<b>Planning materiality</b> - This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of the budgeted gross expenditure as at November 2016 for the year ended 31 March 2017	£2,575
<b>Performance materiality</b> - 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 60% of planning materiality.	£1,545
<b>Reporting threshold</b> - 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 4% of planning materiality.	£100

15. We review and report on other information published with the financial statements including the management commentary, annual governance report and the remuneration report. Any issue identified will be reported to the SESplan Joint Committee.

### Timetable

16. To support the efficient use of resources it is critical that a financial statements timetable is agreed with us for the production of the unaudited accounts. An agreed timetable is included at [Exhibit 4](#) which takes account of submission requirements and planned Joint Committee dates:

## Exhibit 4

### Financial statements timetable

 Key stage	 Date
Consideration of unaudited financial statements by those charged with governance	26 June 2017
Latest submission date of unaudited financial statements with complete working papers package	30 June 2017
Latest date for final clearance meeting with the accountant	25 August 2017
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	18 September 2017
Independent auditor's report signed	26 September 2017

### Internal audit

17. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. Internal audit is provided by Fife Council's Audit and Risk Management Service (ARMS). We seek to rely on the work of internal audit wherever possible; however there are no planned internal audit reviews for SESplan this year.

## Audit dimensions

18. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 5](#).

### Exhibit 5

#### Audit dimensions



#### Financial sustainability

19. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on SESplan's financial sustainability in the longer term. We define this as medium term (two to five years) and longer term (longer than five years) sustainability. We will carry out work and conclude on :

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- whether SESplan can demonstrate the affordability and effectiveness of funding.

#### Financial management

20. Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively. We will review, conclude and report on:

- whether arrangements are in place to ensure systems of internal control are operating effectively
- whether SESplan can demonstrate the effectiveness of budgetary control systems in communicating accurate and timely financial performance
- how SESplan has assured itself that its financial capacity and skills are appropriate
- whether appropriate and effective arrangements for the prevention and detection of fraud and corruption have been established.

## Governance and transparency

**21.** Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information. We will review, conclude and report on:

- whether SESplan can demonstrate that the governance arrangements in place are appropriate and operating effectively.
- whether there is effective scrutiny, challenge and transparency on the decision-making and finance and performance reports.
- the quality and timeliness of financial and performance reporting.

## Value for money

**22.** Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether SESplan can provide evidence that it is demonstrating value for money in the use of its resources, has a focus on improvement and that there is a clear link to the outcomes delivered.

## Independence and objectivity

**23.** Auditors appointed by Audit Scotland must comply with the Code of Audit Practice. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has in place robust arrangements to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Assistant Auditor General, who serves as Audit Scotland’s Ethics Partner.

**24.** The engagement lead for SESplan is Pearl Tate, Senior Audit Manager. 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 pertaining to the audit of SESplan.

## Quality control

**25.** International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor’s report or opinion is appropriate in the circumstances.

**26.** The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews, internal quality reviews and is currently reviewing the arrangements for external quality reviews.

**27.** As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

# Edinburgh and South East Scotland Strategic Development Planning Authority

## Annual Audit Plan 2016/17

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