

For Decision	✓
For Information	

ITEM 9 – FINANCE – MONITORING, UNAUDITED ACCOUNTS 2015/2016 AND ANNUAL AUDIT PLAN

Report by: Ian Angus, SDP Manager

Purpose

This report presents: a budget monitoring report for the year to 31 March 2016; the SESplan Unaudited Accounts for 2015 / 2016; and the Annual Audit Plan for consideration by the Joint Committee.

Recommendations

It is recommended that the SESplan Joint Committee:

- a. Notes the budget monitoring report attached as Appendix 1;
- b. Notes the Unaudited Accounts 2015 / 2016 as set out in Appendix 2;
- c. Agree to hereby give 14 days' notice that the Unaudited Accounts 2015 / 2016 will be made available on the SESplan website from the 14 June 2016 for a 30 day period; and
- d. Notes the Annual Audit Plan attached as Appendix 3.

Resource Implications

As set out below and in Appendices 1 and 2.

Legal and Risk Implications

There are risks to the process if sufficient funding is not available to progress the Strategic Development Plan (SDP) at a rate which provides an up to date strategic planning policy context for the timeous progression of the member authorities' Local Development Plans (LDP), as is required by the relevant legislation. All risks are detailed in the SESplan Risk Register and reported to Joint Committee on an annual basis.

Policy and Impact Assessment

No separate impact assessment is required.

1. Background

- 1.1 Under SESplan's Financial Rules, the Treasurer, in conjunction with the SDP2 Manager, is to submit detailed monitoring reports to the Joint Committee twice a year with one occasion being the end of each financial year. A monitoring report for the period to the end of the financial year 2015-16 is attached as Appendix 1 to this report.
- 1.2 The Local Authority Accounts (Scotland) Regulations 1985 require all local authorities (including joint boards and joint committees) to make their unaudited accounts available for public inspection for at least 15 working days.
- 1.3 Authorities must give at least 14 days public notice of the start of the inspection period. During this time, members of the public can look at *'the accounts to be audited, all books, deeds, contracts, bills, vouchers and receipts relating thereto...'* Section 101 of the Local Government (Scotland) Act 1973 (the Act) allows copies or extracts of the accounts to be taken without charge.
- 1.4 The Act also provides for 'any person interested' to object to the accounts. The Act and Regulations require such rights to be stated in the public inspection notice. An objector must send their objection in writing to the Controller of Audit, the local authority auditor, the authority and any officer concerned within 21 days of the documents becoming available.
- 1.5 Audit Scotland recommends the presentation of the Annual Audit Plan for SESplan to the Joint Committee as good practice.

2. Budget Monitoring to 31 March 2016

- 2.1 SESplan's 2015-16 Operating Budget and the Provisional Six Month Out-turn report is attached as Appendix 1.
- 2.2 The report notes that total costs in the year were £289,643 compared to the budget of £300,874. There was an overspend of £1,491 on Fixed Costs and an underspend of £11,231 on Variable Costs.
- 2.3 The majority of SESplan's costs are Fixed Costs, primarily staff and associated costs. There was a small net overspend of £2,021 on salaries and related costs in 2015-16. This variance from the approved budget of £220,708 was related to higher costs associated with maternity leave than estimated which were, in part, offset by a small underspend on a student planner post.
- 2.4 The approved budget for SESplan's Variable Costs in 2015-16 was £42,500. This budget allows for the

commissioning of essential technical support and includes consultants' fees and event costs. In 2015-16, this was applied primarily to provide GIS and graphics support for the Main Issues Report and Proposed Plan and event costs related to the Main Issues Report consultation. In 2015-16, GIS services were provided by Scottish Borders Council and graphic services by City of Edinburgh Council at costs of £11,910 and £4,290 respectively. The transport appraisal for SDP2 was also to be funded from this budget in 2015-16 but this project was delayed and this contributed to an 'underspend' on Variable Costs of £12,722 in the year. The transport appraisal, which was commissioned in March 2015, at a cost of £13,222, has now been completed and the costs will fall in 2016-17.

- 2.5 SESplan's income is made up of member authorities' annual contributions and very small amounts from the sale of documents and interest on revenue balances. The total income in 2015-16 was £279,516 compared to an estimated income of £280,000. In 2015-16, members' contributions were £279,300 in total, as in the approved budget. There was no income from the sale of documents in the year. Income from interest on revenue balances was £216 against an estimate of £1,000.
- 2.6 The Operating Budget 2015-16 included £50,836 carried forward from 2014-15, estimated that SESplan would draw £20,324 from its reserves in the year and carry forward £30,512 to 2016-17. An effect of the timing of the transport appraisal and the small overspend on fixed costs was that SESplan drew £10,127 from reserves in the year and the reserves carried forward to 2016-17 will be increased by a corresponding amount.
- 2.7 In accord with SESplan's Financial Rules, a budget monitoring report and the proposed Operating Budget for 2017-18 will be presented for the consideration of the Joint Committee on 28 November 2016.

3. Unaudited Accounts 2015-16

3.1 The Unaudited Accounts for 2015-16 are included as Appendix 2 to this Report. The Accounts include the following financial statements:

- The Movement in Reserves Statement reconciles the financial position shown in the Comprehensive Income and Expenditure Statement to the movement in SESplan's reserves;
- The Comprehensive Income and Expenditure Statement summarises the resources that have been generated and consumed in providing services and managing SESplan during the year;
- The Balance Sheet provides details of the Authority's assets and liabilities as at 31 March 2016; and
- The Cash Flow Statement details the inflows and outflows of cash arising from transactions.

3.2 Subject to agreement by the SESplan Joint Committee the Audited Accounts will be uploaded to the SESplan website for a 30 day inspection period commencing on the 14 June 2016.

4. Annual Audit Plan

4.1 The Annual Audit Plan is prepared for the Treasurer and the members of the SDPA by Audit Scotland and sets out the purpose of and programme for the Annual Audit. Fife Council, as the Treasurer for SESplan, and the SDP manager have an opportunity to comment on the draft Annual Audit Plan. The Annual Audit Plan, attached as Appendix 3, is presented to the Joint Committee for noting. The plan indicates that the audited accounts and Annual Audit Report will be presented to the meeting of the Joint Committee on 26 September 2016.

Appendices

- Appendix 1 2015/16 Operating Budget and 6 Month Out-Turn 2015-16
- Appendix 2 Unaudited Accounts 2015-16
- Appendix 3 Annual Audit Plan 2015-16

Background Papers

SESplan Constitution, approved at SESplan Joint Committee on the 14 December 2015

SESplan Financial Rules, approved at SESplan Joint Committee on the 14 December 2015

Report Contact: ian.angus@sesplan.gov.uk / 01506 282879

Report Agreed By: Ian Angus, SDP Manager

Author:

Name:

Appendix 1 - SESplan 20115-16 Operating Budget and Six Month Out-turn 2015-16

	2015/16 Budget	2015/16 Provisional Outturn	2015/16 Variance	Cost per council pa	Notes	2016/17 Budget
FIXED COSTS						
Team salaries + oncosts	220,708	222,729	2,021	37,122	1	227,199
Accommodation costs (including Reception staff)	7,500	7,453	-47	1,242		7,613
IT Costs	16,000	16,283	283	2,714		16,000
Audit Fee	3,350	3,380	30	563		3,400
Consumables, travel, training, misc	10,816	10,020	-796	1,670		10,124
TOTAL Fixed Costs	258,374	259,865	1,491	43,311		264,336
VARIABLE COSTS						
Technical Support	42,500	29,778	-12,722	4,963		20,000
Add: 10% contingency			0	0		2,000
TOTAL Variable Costs	42,500	29,778	-12,722	4,963	2	22,000
TOTAL COSTS	300,874	289,643	-11,231	48,274		286,336
Sale of Plans	250	0	-250	0		250
Interest on Revenue Balances	1,000	216	-784	36		1,000
Funded By:						
Partner Contributions	279,300	279,300	0	46,550		279,300
TOTAL INCOME	280,550	279,516	-1,034	46,586		280,550
Net Expenditure	20,324	10,127	-10,197	1,688		5,786
Useable Reserve brought forward from 2014/15	-50,836					
Useable reserve Carried Forward to Future Year		-42,675				-36,889
Reserves as percentage of expenditure	16.9%	14.7%				12.9%

Notes:

1. Minor overspend on maternity leave and cover, offset by £2k underspend on student planner
2. Variable costs underspent by £13k

APPENDIX A – UNAUDITED ACCOUNTS 2015 / 2016

SESplan

**The Strategic Development Planning Authority
for Edinburgh and South East Scotland**

SESplan

Annual Accounts 2015 - 16

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MANAGEMENT COMMENTARY

INTRODUCTION

Four strategic development planning authorities (SDPAs) were designated by Scottish Ministers in May 2008 under Section 4 of the Planning etc (Scotland) Act 2006. SESplan is the Strategic Development Planning Authority for Edinburgh and South East Scotland.

The membership of SESplan comprises 6 local authorities, these being East Lothian Council, City of Edinburgh Council, Fife Council, Midlothian Council, Scottish Borders Council and West Lothian Council.

The key role of SESplan is the preparation and maintenance of an up-to-date Strategic Development Plan (SDP). This process involves engaging key stakeholders and the wider community. The first SDP was approved by Scottish Ministers on 27 June 2013. The purpose of the SDP is to assess cross boundary issues between the 6 member authorities. These issues include housing, transport, employment, infrastructure and energy.

The current SDP was approved in June 2013 and replaced the Edinburgh and Lothians Structure Plan, Fife Structure Plan and the Scottish Borders Structure Plan. Housing Land Supplementary Guidance, which provides further details on housing land requirements in support of the SDP, was formally adopted as part of the development plan by all SESplan authorities on 28 October 2014. The individual councils are now preparing Local Development Plans in order to implement the requirements of the approved SDP.

The second SESplan Main Issues Report (MIR) was published on 21 July 2015. During a 10 week consultation period SESplan received 240 responses. This was almost 10% more than the number received on the first Main Issues Report and 25% more than the average response to previous consultations undertaken by SESplan. There was a significant increase in the numbers of responses from individuals and community groups and, overall, there was an improved balance between the types of stakeholders who responded to the MIR. These responses helped to shape the next stage in the plan preparation process, the Proposed Plan, which is expected to be considered by the SESplan Joint Committee in May 2016.

The Proposed Plan Period for Representations will be held in late summer 2016. This will be a six week period where all stakeholders are invited to indicate their support for the plan or what changes should be made with justifications for any such changes. After the Period for Representations, the Proposed Plan will be submitted to Scottish Ministers for Examination, provided there are no modifications required.

Development Plan Scheme 8 was approved by the SESplan Joint Committee on 21 March 2016. You can download a copy of it by going to <http://www.sesplan.gov.uk/assets/publications/Development%20Plan%20Schemes/DPS8%20Final.pdf>

This management commentary is intended to provide a brief narrative on SESplan's financial position, as presented in these annual accounts for the financial year 2015-16.

The financial results for 2015-16 are set out in the following pages along with the accounting policies that have been adopted to ensure that the accounts present a true and fair view of the Authority's financial performance.

ACCOUNTING POLICIES

The Statement of Accounting Policies sets out the basis on which the financial statements have been prepared and explains the accounting treatment of both general and specific items.

FINANCIAL STATEMENTS

The Annual Accounts include the following financial statements:

- The Movement in Reserves Statement reconciles the financial position shown in the Comprehensive Income and Expenditure Statement to the movement in SESplan's reserves.
- The Comprehensive Income and Expenditure Statement summarises the resources that have been generated and consumed in providing services and managing SESplan during the year.
- The Balance Sheet provides details of the Authority's assets and liabilities as at 31 March 2016.
- The Cash Flow Statement details the inflows and outflows of cash arising from transactions.

COMPREHENSIVE INCOME AND EXPENDITURE AND MOVEMENT IN RESERVES STATEMENTS

The Comprehensive Income and Expenditure Statement shows resources generated and consumed in running the Authority during the year, whilst the Movement in Reserves Statement identifies the differences, where these exist, between the Comprehensive Income and Expenditure Statement outturn and the impact on the usable reserves.

Details of how the Authority's expenditure is financed are presented on the Comprehensive Income and Expenditure Statement.

FINANCIAL PERFORMANCE

The Comprehensive Income and Expenditure Statement shows that £10,127 was drawn down from useable reserves during 2015-16, which reflects the resources consumed during the year against the income generated. Expenditure related mainly to staffing and accommodation. This was funded from contributions from partners of £46,550 each, a total of £279,300.

During the year SESplan achieved an under-spend on budget of £10,197. This was mostly due to a saving of £14,627 on supplies & services. The activities of SESplan are cyclical which means that the organisation needs to use the reserve to cushion the impact of uneven cash flows. The cumulative surplus for the usable reserve is carried forward to 2016-17 and used to support all activities of the Authority.

The Balance Sheet as at 31 March 2016 shows a net asset position of £35,449.

STATEMENT OF RESPONSIBILITIES

THE AUTHORITY'S RESPONSIBILITIES

The Authority is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). In this authority, that officer is the Treasurer.
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- to ensure the Annual Accounts are prepared in accordance with legislation (the Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).
- to consider the unaudited accounts at a meeting no later than 31 August.
- to approve the Statement of Accounts by presenting the audited accounts by 30 September.

RESPONSIBILITIES OF THE TREASURER

The Treasurer is responsible for the preparation of the authority's statement of accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code), is required to give a true and fair view of the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2016.

In preparing this statement of accounts, the Treasurer has:

- selected suitable accounting policies and then applied them consistently,
- made judgements and estimates that were reasonable and prudent,
- complied with legislation, and
- complied with the local authority Accounting Code (in so far as it is compatible with legislation).

The Treasurer has also:

- kept adequate accounting records which were up to date,
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

These accounts give a true and fair view of the financial position of the authority at the reporting date and its income and expenditure for the year ended 31 March 2015.



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Eileen Rowand MBA, CPFA

Treasurer

20 May 2015

MOVEMENT IN RESERVES STATEMENT

EXPLANATORY NOTE

This statement shows the movement in the year on the different reserves held by the organisation, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure) and unusable reserves. The (Surplus) or Deficit on the Provision of Services shows the true economic cost of providing the organisation's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance. The unusable reserves consist of the Employee Statutory Adjustment Account which absorbs the differences that would otherwise arise on the General Fund balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund is neutralised by transfers to or from the account.

	Notes	Usable Reserves £	Unusable Reserves £	Total Reserves £
Balance at 31 March 2015 brought forward		(50,836)	5,260	(45,576)
<u>Movement in Reserves during 2015-16</u>				
(Surplus) or deficit on provision of services		10,127	0	10,127
Other Comprehensive Expenditure and Income		0	0	0
Total Comprehensive Expenditure and Income		10,127	0	10,127
Adjustments between accounting basis & funding basis under regulations	5	(1,966)	1,966	0
(Increase) or Decrease in Year		8,161	1,966	10,127
Balance at 31 March 2016 carried forward		(42,675)	7,226	(35,449)

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

EXPLANATORY NOTE

This statement shows the accounting cost in the year of providing services in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 and the Service Reporting Code of Practice 2015-16.

2014-15 Gross Expenditure £	2014-15 Gross Income £	2014-15 Net Expenditure £	Notes	2015-16 Gross Expenditure £	2015-16 Gross Income £	2015-16 Net Expenditure £
198,268	0	198,268	Employee Costs	222,729	0	222,729
50,322	0	50,322	Premises Related Costs	7,453	0	7,453
1,305	0	1,305	Transport Related Costs	4,722	0	4,722
63,754	0	63,754	Supplies & Services	54,739	0	54,739
0	(185)	(185)	Income	0	0	0
313,649	(185)	313,464	Cost Of Services	289,643	0	289,643
	(618)	(618)	Financing & Investment Income & Expenditure		(216)	(216)
	(279,300)	(279,300)	Requisitions from member authorities	12 8	(279,300)	(279,300)
		33,546	(Surplus) or Deficit on Provision of Services			10,127
		0	Other Comprehensive Income & Expenditure			0
		33,546	Total Comprehensive Income & Expenditure			10,127

BALANCE SHEET

EXPLANATORY NOTE

The Balance Sheet shows the value as at the Balance Sheet date, 31 March 2016, of the assets and liabilities recognised by SESplan. The net assets of the organisation (assets less liabilities) are matched by the reserves held. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the organisation may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves is those that the authority is not able to use to provide services. This category of the reserve holds timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

31 March 2015	Balance Sheet as at 31 March	Notes	31 March 2016
£			£
10,000	Debtors and Pre-payments	6	10,000
76,136	Cash and Cash Equivalents	9	64,809
<u>86,136</u>	Current Assets		<u>74,809</u>
<u>(40,560)</u>	Creditors	7	<u>(39,360)</u>
<u>(40,560)</u>	Current Liabilities		<u>(39,360)</u>
45,576	Net Assets		35,449
(50,836)	Usable Reserves		(42,675)
5,260	Employee Statutory Adjustment Account	5	7,226
(45,576)	Total Reserves		(35,449)

The unaudited accounts were issued on 20 May 2015.



Eileen Rowand MBA, CPFA
Treasurer
20 May 2015

CASH FLOW STATEMENT

EXPLANATORY NOTE

The Cash Flow Statement shows the changes in cash and cash equivalents of the authority during the reporting period. The statement shows how the authority generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. SESplan does not generate any cash inflow through investing or financing activities.

2014-15		Notes	2015-16
£	Operating Activities		£
	<u>Cash Outflows</u>		
194,332	Cash paid to and on behalf of employees		213,881
<u>100,295</u>	Other operating cash payments		<u>76,962</u>
294,627	Total Payments		290,843
	<u>Cash Inflows</u>		
<u>(280,104)</u>	Other operating cash receipts		<u>(279,516)</u>
<u>(280,104)</u>	Total Receipts		<u>(279,516)</u>
14,523	Net Cash Outflow-(Inflow) from Operating Activities	11	11,327
0	Investing Activities		0
0	Financing Activities		0
14,523	Net Decrease-(Increase) in Cash-Cash Equivalents		11,327
90,659	Cash and cash equivalents at the beginning of the period		76,136
76,136	Cash and cash equivalents at the end of the period	9	64,809

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF ACCOUNTING POLICIES

A) GENERAL PRINCIPLES

These accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015-16 and the Service Reporting Code of Practice 2015-16. The accounts are prepared in accordance with the fundamental accounting principles in terms of the characteristics required, the materiality of the information involved and the accounting concepts underlying the preparation of the accounts. The two essential fundamental characteristics are that the financial information is relevant and is a faithful representation of the authority's financial performance. The desirable qualitative characteristics of the financial information are that they are comparable, verifiable, timely and understandable. Every attempt has been made to ensure these characteristics have been achieved. In compiling these accounts underlying assumptions have been made. These are that the accounts should be on the accrual basis; that the organisation is a going concern, and the primacy of legislation.

In calculating relevant figures for the provisions and accruals suitable estimation techniques have been used, using previous year's experience, relevant data and the guidance contained within the Code.

Fife Council is acting as the lead authority for the financial matters in relation to SESplan, therefore, the accounting policies and concepts applied are consistent with those of Fife Council. Those which are relevant for SESplan are detailed in this document.

B) ACCRUALS OF INCOME & EXPENDITURE

In accordance with the Code, the Accounts and related Statements have been compiled on an accruals basis. Accruals are made for all material debtors and creditors within the accounts. Accruals have been made for payroll costs where pay has been earned but not paid, supplies and services where they have been received or consumed within the financial year, for interest due and payable on external borrowings and for customer and client receipts due and receivable in the period to which they relate.

The main accrual bases used are as follows:

Payroll Costs: A calculation of the salaries and wages paid in 2016-17 which relate to 2015-16 is made and accrued back to 2015-16 based on the number of days which relate to the period to 31 March 2016.

Travelling Expenses: Estimate of claims paid in 2016-17 that relate to 2015-16.

Holiday Pay: Based on the employees' holiday and flexi leave earned during 2015-16 but not taken by 31 March 2016.

Supplies and Services: Based on purchase ordering and goods receipting information held in the Council's financial systems and by SESplan.

Interest: Based on Fife Council's Investment and Banking team's records of external and internal loans.

C) CASH AND CASH EQUIVALENTS

Cash and cash equivalents are defined as cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

D) PRIOR PERIOD ADJUSTMENTS, CHANGES IN ACCOUNTING POLICIES AND ESTIMATES AND ERRORS

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. There have been none for this period.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period. There have been none for this period.

E) EMPLOYEE BENEFITS & PENSION COSTS

Benefits Payable During Employment

The staff of SESplan are directly employed by Fife Council. All salaries and wages, including any pension related costs, are paid through the Fife Council payroll system and charged to SESplan' accounts as they are incurred.

All salaries and wages earned up to 31 March 2016 are included in the Accounts irrespective of when payment was made. An accrual is made for the cost of holiday and flexi leave entitlements earned by employees, but not taken before the year end, which employees may carry forward into the next financial year.

F) EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect disclosure is made in the notes of the nature of the events and their estimated financial effect

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

There were no events after the reporting period relevant to SESplan.

G) PROVISIONS

SESplan is required to provide for all known liabilities where the authority has a present obligation as a result of a past event, where it is likely that a payment will be made to settle this obligation and where a reasonable estimate can be made of the amount that will be paid.

At present SESplan does not have any provisions.

H) CONTINGENT ASSETS AND LIABILITIES

A contingent asset arises where an event has taken place that gives SESplan a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within its control.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

A contingent liability arises where SESplan has a possible obligation e.g. through litigation claims, claims from contractors, etc that could result in financial payment or other settlement to be made in the future. These liabilities are disclosed in the Notes to the Accounts. Where potentially such liabilities are reduced through contributions or recoveries from other parties the net liability is shown.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

For more information on contingent assets and liabilities, please see Note 10.

I) VALUE ADDED TAX

VAT is included within the relevant revenue or capital accounts only to the extent that it is not recoverable from HM Revenue and Customs.

J) RESERVES

SESplan has a usable reserve which is the accumulated surplus of income received less expenditure incurred. This will be used to fund costs in subsequent financial years. It also has an unusable reserve which reflects the accumulated absences earned by staff but not taken by the end of the financial year.

2. ACCOUNTING STANDARDS ISSUED NOT YET ADOPTED

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted.

Accounting Standards not yet adopted are:-

- Amendments to IAS 19 *Employee Benefits* (Defined Benefit Plans: Employee Contributions)
- Annual Improvements to IFRSs 2010 – 2012 Cycle (Amendments to IAS 24 Related Parties Disclosures)
- Amendment to IFRS 11 *Joint Arrangements* (Accounting for Acquisitions of Interests in Joint Operations)
- Amendment to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* (Clarification of Acceptable Methods of Depreciation and Amortisation)
- Annual Improvements to IFRSs 2012 – 2014
- Amendment to IAS 1 *Presentation of Financial Statements* (Disclosure Initiative)
- The changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis
- The changes to the format of the Pension Fund Account and the Net Assets Statement.

The Code requires implementation from 1 April 2016 and there is therefore no impact on the 2015-16 financial statements.

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, the authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgement made in the Statement of Accounts is that there is a high degree of uncertainty about future levels of funding for local government. As SESplan is wholly funded through contributions from the six local authority members, this has implications for the levels of funding available to SESplan in future years. However, the authority has determined that this uncertainty is not yet sufficient to provide an indication that its assets might be impaired as a result of a need to reduce levels of service provision.

4. AUDIT COSTS

The authority has agreed the following fees in respect of the audit work relating to the respective financial years:

2014-15		2015-16
£		£
3,380	Fee for Appointed Auditors	3,380

This is included in the Supplies & Services line of the Comprehensive Income & Expenditure Statement.

5. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

2014-15 £	Employee Statutory Adjustment Account	2015-16 £
(4,464)	Settlement or cancellation of accrual made at the end of the preceding year	(5,260)
5,260	Amounts accrued at the end of the current year	7,226
<u>796</u>	Amount by which officer remuneration charged to CI&ES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	<u>1,966</u>

6. DEBTORS

2014-15 £		2015-16 £
10,000	Non-government Entities & Individuals	10,000

7. CREDITORS

2014-15 £		2015-16 £
2,084	Other Local Authorities	9,457
<u>38,476</u>	Other Entities and Individuals	<u>29,903</u>
<u>40,560</u>		<u>39,360</u>

8. RELATED PARTY TRANSACTIONS & BALANCES

SESplan is required to disclose material transactions with related parties i.e. bodies or individuals that have the potential to control or influence it or to be controlled or influenced by it. Disclosure of these transactions allows readers to assess the extent to which the authority might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the authority.

For SESplan, these related parties are the 6 local authorities which are the members of the organisation, i.e. East Lothian Council, City of Edinburgh Council, Fife Council, Midlothian Council, Scottish Borders Council and West Lothian Council. During the year SESplan received £46,550 as a funding contribution from each of the above related parties (2014-15, £46,550 from each). The total contributions from the members amounted to £279,300 in 2015-16 (2014-15, £279,300).

SESplan is located at premises at West Lothian Council. The rent and service charges for 2015-16 are £7,376.

Scottish Borders Council provided GIS Support to SESplan at a cost of £11,910.

Fife Council manages SESplan's cash reserves. More details relating to this can be found in Note 9.

There were no amounts due from related parties at 31 March 2016. The amounts due to related parties at that date were:

2014-15		2015-16
£		£
179	City of Edinburgh Council	0
2,084	West Lothian Council	9,457

9. ANALYSIS OF INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS

2014-15		2015-16
£		£
90,659	Other Local Authorities	76,136
<u>(14,523)</u>	Other Entities and Individuals	<u>(11,327)</u>
<u>76,136</u>		<u>64,809</u>

This is an advance to Fife Council's Loans Fund. Fife Council manages the cash on behalf of SESplan.

10. CONTINGENT LIABILITIES & CONTINGENT ASSETS

SESplan does not have any contingent assets or liabilities.

11. RECONCILIATION OF (SURPLUS)/DEFICIT ON INCOME AND EXPENDITURE ACCOUNT TO THE CASH FLOW STATEMENT

2014-15		2015-16
£		£
33,546	(Surplus) or Deficit on the Comprehensive Income and Expenditure Statement	10,127
(2,479)	(Increase) or Reduction in Creditors	0
(16,544)	Other Entities and Individuals	1,200
<u>14,523</u>	Net Cash Outflow-(Inflow) From Operating Activities	<u>11,327</u>

12. CASHFLOW STATEMENT OPERATING ACTIVITIES

2014-15		2015-16
£		£
618	Interest received	216

13. PENSION SCHEME ACCOUNTED FOR AS DEFINED CONTRIBUTION SCHEME

SESplan's members of staff are employed by Fife Council and as such they are entitled to be members of the Superannuation Scheme which is administered by Fife Council. This provides staff with defined benefits upon their retirement and SESplan contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

It is neither appropriate nor possible for SESplan to identify a share of the underlying liabilities in the scheme attributable to its staff. For the purposes of this statement of accounts, it is therefore accounted for as a defined contribution scheme.

In 2015-16, SESplan paid £35,850 (£31,053 in 2014-15) in respect of superannuation contributions representing 22.3% of pensionable pay of those individuals who have joined the scheme (2014-15: 20.5%).

The employing authority is responsible for all pension payments related to "added years" it has awarded, together with related increases. There are no awards in respect of staff working for SESplan.

14. EVENTS AFTER THE BALANCE SHEET

There were no events after the reporting period relevant to SESplan.

ANNUAL GOVERNANCE STATEMENT 2015-2016

1.0 GOVERNANCE ARRANGEMENTS

- 1.1 The designation order which formally constituted the Edinburgh and South East Scotland Strategic Development Planning Authority came into force on 25 June 2008. A formal joint committee comprising of 12 councillors, 2 from each of the six constituent authorities, was established on 27 June 2008. The Joint committee meets three to four times per year to make decisions on the content and preparation of the Strategic Development Plan as well as governance and finance of the Strategic Development Planning Authority.
- 1.2 SESplan's constitution specifies that the Joint Committee is convened and chaired by one authority which is rotated on an annual basis. At its meeting on 18 November 2013, the Joint Committee agreed that the Convenership of the Joint Committee should, thereafter, rotate every two calendar years. At the same meeting, the Joint Committee approved the appointment of Councillor Ian Perry as Convener and Councillor Stuart Bell as Vice Convener of the SESplan Joint Committee for the two year period from 1 January 2014 to 31 December 2015. These roles rotated on 1 January 2016 with Councillor Stuart Bell from the Scottish Borders and Councillor Lesley Laird from Fife taking office as Convener and Vice Convener respectively. A report dealing with amendments to the governance arrangements was approved by the Joint Committee on 14 December 2015. The administration of the Joint Committee is the responsibility of the convening local authority.
- 1.3 As described in its constitution, the Joint Committee has an advisory role only. Its decisions are not binding on constituent authorities but its advice and recommendations will be considered by those authorities in reaching their own decisions. A Scheme of Delegation has been approved which outlines approved levels of delegation between the constituent authorities and the Joint Committee and also the Joint Committee and officers.
- 1.4 SESplan also has a Project Board which consists of six senior officers, one from each of the constituent councils. The Project Board is responsible to the Strategic Development Plan Authority ('SDPA') for the direction and management of SESplan. The Project Board is responsible for specifying the products of SESplan's programme. Its role includes managing the SESplan manager, ensuring that the decisions of the SDPA are implemented and agreeing reports to be presented to the Joint Committee.
- 1.5 The Strategic Development Planning Authority for Edinburgh and South East Scotland (SESplan) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted

for and used economically, efficiently and effectively. SESplan also has a duty under the Local Government in Scotland Act 2003 to make arrangements to secure continuous improvement in the way in which its functions are exercised. In discharging this responsibility, elected members and senior officers are responsible for putting in place proper arrangements for the governance of SESplan's affairs and facilitating the effective exercise of its functions which includes the management of risk.

- 1.6 In discharging this overall responsibility, SESplan has adopted practices which are consistent with the principles and reflects the requirements of the CIPFA/SOLACE (Chartered Institute of Public Finance & Accountancy/Society of Local Authority Chief Executives and Senior Managers) Framework "Delivering Good Governance in Local Government".
- 1.7 SESplan has put in place appropriate management and reporting arrangements to enable it to satisfy itself that its approach to corporate governance is both adequate and effective in practice. Specifically, it has developed and adopted a risk management strategy for the organisation.
- 1.8 However, it should be noted that a sound system of Corporate Governance and internal control provides only reasonable, but not absolute, assurance that SESplan will not be hindered in achieving its objectives or in the orderly and legitimate conduct of its business by circumstances which may reasonably be foreseen. A system of Corporate Governance and internal control cannot provide protection with certainty against an organisation failing to meet its objectives or material errors, losses, fraud, or breaches of laws or regulations.

2.0 Purpose of the governance framework

- 2.1 The governance framework comprises the structure; systems and processes, and culture and values by which the authority is directed and controlled and the activities by which it accounts to and engages with its customers and the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.
- 2.2 Key elements of good corporate governance include honesty, trust and integrity, openness, performance focus, responsibility and accountability, management of risk, mutual respect and commitment to the organisation. To that end the system of corporate governance and internal control in SESplan is based on a framework that includes:
 - the Scheme of Delegation
 - comprehensive training and development arrangements for councillors and employees
 - Financial Regulations
 - the Annual Workplan

- comprehensive budgeting systems
- regular planning and performance management reports
- periodic and annual financial reports which indicate actual and projected financial performance against budget
- setting and monitoring targets for financial and other performance
- clearly defined capital expenditure guidelines
- embedding risk management within SESplan
- as appropriate, formal programme and project management disciplines.

2.3 Fife Council acts as the employers of SESplan individuals as well as being the organisation through which SESplan records all expenditure. SESplan, as a result, also adheres to the following:

- Fife Council Code of Conduct for employees
- Parent authority's Code of Conduct for councillors
- Fife Council HR Plans and Policies

2.4 The Internal Audit function is provided by the Audit and Risk Management Services Division of Fife Council. It operates in accordance with the Public Sector Internal Audit Standards which apply to Local Government. The Division undertakes an annual programme of work approved by Fife Council's Standards and Audit Committee based on a five year strategic audit plan. The strategic audit plan is based on a formal risk assessment process and is amended on an ongoing basis to reflect evolving risks and changes within the Council. SESplan was not included in this annual programme for 2015-16.

2.5 SESplan uses the corporate financial systems of Fife Council, which are subject to review by both the Council's internal audit service and its external auditor.

3.0 Review of effectiveness

3.1 SESplan has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. This review of effectiveness is informed by:

- The Audit & Risk Management Services Manager's annual assurance statement for Fife Council. In this regard, the most recent assurance statement states that the systems of Corporate Governance and internal control remain in the main robust with improvements in a number of areas and action being taken to address areas of weakness. In general, a medium level of control exists and reasonable assurance can be placed upon the adequacy

and effectiveness of the Council's systems of Corporate Governance and internal control system in the year to 31 March 2016.

- comments made by the external auditors and other review agencies and inspectorates;
- the review of various forms of customer and stakeholder feedback.

3.2 I am also clear that the Council's financial management arrangements conform to the governance requirements of the Chartered Institute of Public Finance and Accountancy's Statement on the Role of the Chief Financial Officer in Local Government (2010).

4.0 Significant Governance Issues

4.1 There are no significant governance issues. The governance arrangements were reviewed in 2015-16 and changes approved by the Joint Committee on 14 December 2015.

5.0 Assurance

5.1 Having reviewed the above, it is my opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the Authority's system of internal financial control.

SESplan

REMUNERATION REPORT

All information disclosed in the tables contained within this Remuneration Report has been audited by Audit Scotland. The other sections of the Remuneration Report have been reviewed by Audit Scotland to ensure that they are consistent with the financial statements.

REMUNERATION ARRANGEMENTS

1. Senior Councillors

No remuneration was paid by SESplan to the Local Authority Councillors who are members of the SESplan Joint Committee. There is therefore no information to report.

2. Senior Employees

Senior employees as defined in the Local Authority Accounts (Scotland) Amendment Regulations 2011 include any local authority employee who has responsibility for management of the local authority or a local authority subsidiary body to the extent that the person has power to direct or control the major activities of the authority (including activities involving the expenditure of money), during the year to which the Report relates, whether solely or collectively with other persons; who holds a post that is politically restricted by reason of section 2(1) (a), (b) or (c) of the Local Government and Housing Act 1989; whose annual remuneration, including any remuneration from a local authority subsidiary body, is £150,000 or more.

The following table provides details of the remuneration of SESplan's only senior employee as defined by the Act.

Senior Employee	Post	2015-16			2014-15
		Salary, Fees and Allowances £	Taxable Expenses £	Total Remuneration £	Total Remuneration £
Ian Angus	Strategic Development Plan Manager	59,276	0	59,276	59,276

3. General Disclosure by Pay Band

Remuneration Bands	Number of Employees	
	2014-15	2013-14
£55,000 - £59,999	1	1

4. Pension Benefits

Pension benefits for SESplan employees are provided through the Local Government Pension Scheme (LGPS). The LGPS is a funded scheme made up of contributions from employees and the employer. For local government employees this was a final salary pension scheme up until March 2015. This meant that pension benefits were based on the final years' pay and the number of years the person had been a member of the scheme. From April 2015, the scheme has changed to a career average (CARE) scheme but an employee's pre April 2015 pension will still be linked to his or her final salary.

The scheme's normal retirement age for employees is 65.

From 1 April 2009 a five tier contribution system was introduced with contributions from scheme members being based on how much pay falls into each tier. This is designed to give more equality between the cost and benefits of scheme membership. Prior to 2009 contribution rates were set at 6% for all non manual employees.

The 2015-16 members' contribution rates have not changed from the 2014-15 rates, but there has been a change to the tiers, as follows:

Whole Time Pay 2015-16	Contribution Rate 2015-16	Whole Time Pay 2014-15	Contribution Rate 2014-15
On earnings up to and including £20,500	5.50%	On earnings up to and including £20,335	5.50%
On earnings above £20,501 and up to £25,000	7.25%	On earnings above £20,335 and up to £24,853	7.25%
On earnings above £25,001 and up to £34,400	8.50%	On earnings above £24,853 and up to £34,096	8.50%
On earnings above £34,401 and up to £45,800	9.50%	On earnings above £34,096 and up to £45,393	9.50%
On earnings above £45,801	12.00%	On earnings above £45,393	12.00%

If a person works part-time their contribution rate is worked out on the whole-time pay rate for the job, with actual contributions paid on actual pay earned.

There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004. The accrual rate guarantees a pension based on 1/60th of final pensionable salary and years of pensionable service. From April 2015 onwards, the pension will be built up at 1/49th of pensionable pay.

The value of the accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a pension on retirement without reduction on account of its payment at that age, without exercising any option to commute pension entitlement into a lump sum and without any adjustment for the effects of future inflation.

The pension entitlement for the senior employee for the year to 31 March 2016 is shown in the table below, together with the contribution made by the council to the senior employee's pension during the year.

The Local Government Pension Scheme is a funded scheme with contributions from both the employer and the employee (see above for details) and as such the accrued benefits includes both of these contributions.

The pension benefits shown relate to the benefits that the individual has accrued as a consequence of their total local government service, including any service with a council subsidiary body, and not just their current appointment.

The accrued pension benefits include transfers from previous employers. The transferred additional accrued pension benefits for Ian Angus were £28,000 at the point he joined SESplan. His accrued pension benefits at 31 March 2016 were £41,000 (31 March 2015 - £39,000).

Senior Employee	Post	In-year employers contributions			Accrued Pension Benefits	
		For Year to 31 March 2016 £	For Year to 31 March 2015 £		As at 31 March 2016 £	Difference from March 2015 £
Ian Angus	Strategic Development Plan Manager	13,559	12,839	Pension	41,000	2,000
				Lump Sum	0	0



Edinburgh and South East Scotland Strategic Development Planning Authority

Annual Audit Plan
2015/16

Prepared for the Treasurer and Members of the
Edinburgh and South East Scotland Strategic
Development Planning Authority

March 2016

Key contacts

Bruce Crosbie, Senior Audit Manager
bcrosbie@audit-scotland.gov.uk

Jordan Roberts, Auditor
jroberts@audit-scotland.gov.uk

Chris Windeatt, Auditor
cwindeatt@audit-scotland.gov.uk

Audit Scotland
4th floor
102 West Port
Edinburgh
EH3 9DN

Telephone: 0131 625 1500

Website: www.audit-scotland.gov.uk

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/about/).

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

This plan has been prepared for the use of the Edinburgh and South East Scotland Strategic Development Planning Authority and no responsibility to any member or officer in their individual capacity or any third party is accepted.

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Summary

Introduction

1. Our audit is focused on the identification and assessment of the risks of material misstatement in Edinburgh and South East Scotland Strategic Development Planning Authority's (SESplan) financial statements.
 2. This report summarises the key challenges and risks facing SESplan and sets out the audit work that we propose to undertake for 2015/16. Our plan reflects:
 - the risks and priorities facing SESplan
 - current national risks that are 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 Accounts Commission
 - issues brought forward from previous audit reports.
- they give a true and fair view of the state of affairs of SESplan as at 31 March 2016 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 2015/16 Code of Practice on Local Authority Accounting in the United Kingdom (the Code)
 - a review and assessment of SESplan's governance and performance arrangements and financial position
 - provision of the annual report on the audit addressed to SESplan and the Controller of Audit.

Summary of planned audit activity

3. Our planned work for 2015/16 includes:
 - an audit of the financial statements and provision of an opinion on whether:

Responsibilities

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

Responsibility of the appointed auditor

5. Our responsibilities, as independent auditor, are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice, and guided by the auditing profession's ethical guidance.
6. Auditors in the public sector give an independent opinion on the financial statements. We also review and report on the arrangements set in place by the audited body to ensure the proper conduct of its financial affairs and to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Responsibility of the Treasurer

7. It is the responsibility of the Treasurer, as the appointed "proper officer", to prepare the financial statements in accordance with relevant legislation and the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). This means:
 - maintaining proper accounting records

- preparing financial statements which give a true and fair view of the state of affairs of SESplan as at 31 March 2016 and its expenditure and income for the year then ended.

Format of the accounts

8. The financial statements should be prepared in accordance with the Code, which constitutes proper accounting practice.

Audit Approach

Our approach

9. Our audit approach is based on an understanding of the characteristics, responsibilities, principal activities, risks and governance arrangements of SESplan. We also consider the key audit risks and challenges in the local government sector generally. This approach includes:
 - understanding the business of SESplan 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 and understanding how SESplan will include these in the financial statements

- assessing and addressing the risk of material misstatement in the financial statements
 - determining the nature, timing and extent of the audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements give a true and fair view.
10. We have also considered and documented the sources of assurance which will make best use of our resources and allow us to focus audit 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. Planned management action being relied on for 2015/16 includes:
- comprehensive closedown procedures for the financial statements accompanied by a timetable issued to all relevant staff
 - clear responsibilities for preparation of financial statements and the provision of supporting working papers
 - delivery of unaudited financial statements to agreed timescales with a comprehensive working papers package
 - completion of the internal audit programme for 2015/16.
11. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible and as part of our planning process we carry out an early assessment of the internal audit function. Internal audit is provided by Fife Council's

Audit and Risk Management Services (ARMS). Overall, we concluded that ARMS operates in accordance with the Public Sector Internal Audit Standards and has sound documentation standards and reporting procedures in place

12. As SESplan uses the financial systems hosted by Fife Council, we plan to place formal reliance on aspects of the work of internal audit in the following areas of their review of Fife Council systems, to support our audit opinion on the SESplan financial statements:
- payroll and expenses
 - debtors
 - bank and suspense accounts reconciliations.

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, the failure to achieve a statutory requirement or, an item contrary to law). In the event of such an item arising, its materiality has to be viewed in a narrower context; such matters would normally fall to be covered in an explanatory paragraph in the independent auditor's report.
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. Based on our knowledge and understanding of SESplan we have set our planning materiality at £3,375 (1% of gross expenditure).
16. We set a lower level, known as performance materiality, when defining our audit procedures. This is to ensure that uncorrected and undetected audit differences do not exceed our planning materiality. This level depends on professional judgement and is informed by a number of factors including:
 - extent of estimation and judgement within the financial statements
 - nature and extent of prior year misstatements
 - extent of audit testing coverage.
17. For 2015/16 performance materiality has been set at £2,362. We will report, to those charged with governance, all misstatements identified which are greater than £100.

Reporting arrangements

18. The Local Authority Accounts (Scotland) Regulations 2014 require that the unaudited annual accounts are submitted to the appointed external auditor no later than 30 June each year. SESplan is required to consider the unaudited annual accounts at a meeting by 31 August.
19. SESplan must publish the unaudited accounts on their website and give public notice of the inspection period.

20. The 2014 regulations require SESplan to meet by 30 September to consider whether to approve the audited annual accounts for signature. Immediately after approval, the annual accounts require to be signed and dated by specified members and officers and then provided to the auditor. The Controller of Audit requires audit completion and issue of an independent auditor's report (opinion) by 30 September each year.
21. SESplan is required to publish on its website its signed audited annual accounts, and the audit certificate, by 31 October. The annual audit report is required to be published on the website by 31 December.
22. A proposed timetable for the audit of the 2015/16 financial statements is included at Exhibit 1 below. Discussions are still ongoing on the timing of committee dates to ensure compliance with the 2014 regulations.

Exhibit 1: Financial statements audit timetable

Key stage	Date
Meetings with officers to clarify expectations of working papers and financial system reports	March 2016
Consideration of unaudited financial statements by those charged with governance	30 May 2016
Latest submission date of unaudited council financial statements with complete working papers package	30 May 2016

Key stage	Date
Progress meetings with officers on emerging issues	As and when required during the audit process
Latest date for final clearance meeting with officers	10 September 2016
Agreement of audited unsigned financial statements, and issue of Annual Audit Report (which includes the ISA 260 report to those charged with governance)	17 September 2016
Joint Committee date for consideration of audited accounts and Annual Audit Report	26 September 2016
Independent auditor's report signed	26 September 2016

23. 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 Strategic Development Plan (SDP) Manager and the Treasurer to confirm factual accuracy. A copy of all final agreed reports will be sent to the SDP Manager, Treasurer, internal audit and Audit Scotland's Performance Audit and Best Value Group.
24. We will provide an independent auditor's report to SESplan and the Accounts Commission that the audit of the financial statements has been completed in accordance with applicable statutory

requirements. The Annual Audit Report will be issued by 30 September.

25. All annual audit reports produced are published on Audit Scotland's website: www.audit-scotland.gov.uk.
26. Planned outputs for 2015/16 are summarised at [Appendix 1](#).

Quality control

27. 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. This is to provide reasonable assurance that those 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. 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 Accounts Commission. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews and has been subject to a programme of external reviews by the Institute of Chartered Accountants of Scotland (ICAS).
28. 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 do, however, welcome feedback at any time and this may be directed to the engagement lead, Bruce Crosbie, Senior Audit Manager.

Independence and objectivity

29. Auditors appointed by the Accounts Commission must comply with the Code of Audit Practice. When auditing the financial statements, auditors must also comply with professional standards issued by the Auditing Practices Board 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.
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 other such relationships pertaining to the audit of SESplan.

Audit issues and risks

31. Based on our discussions with staff and a review of supporting information, we have identified the following main financial statements issues and risks for SESplan:
 - accounting for transactions in wrong year
 - management override of controls.
32. These risks are documented in the summary assurance plan at [Appendix 2](#), together with details of the sources of assurance that

we have received and any audit work we plan to undertake for each of the risks. In the period prior to the submission of the unaudited financial statements, we will liaise with senior officers on any new or emerging issues.

Fees and resources

Audit fee

33. Over the past four years, Audit Scotland has reduced audit fees by 24% in real terms, exceeding our 20% target. Due to further refinement of our audit approach we have been able to maintain audit fees for 2015/16 at the same level as last year. This represents an additional real term fee reduction of 1.6%.
34. 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. We have assumed receipt of a complete set of unaudited financial statements and comprehensive working papers package by May 2016.
35. The proposed audit fee for the 2015/16 audit of SESplan is £3,380 (2014/15 £3,380). Our fee covers:
 - the costs of planning, delivering and reporting the annual audit
 - your organisation’s allocation of the cost of national performance studies and statutory reports

- a contribution towards functions that support the local audit process (e.g. technical support and coordination of the National Fraud Initiative), support costs and auditors' travel and subsistence expenses.
36. Where our audit cannot proceed as planned through, for example, late receipt of unaudited financial statements or being unable to take planned reliance from the work of internal audit, 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.

Audit team

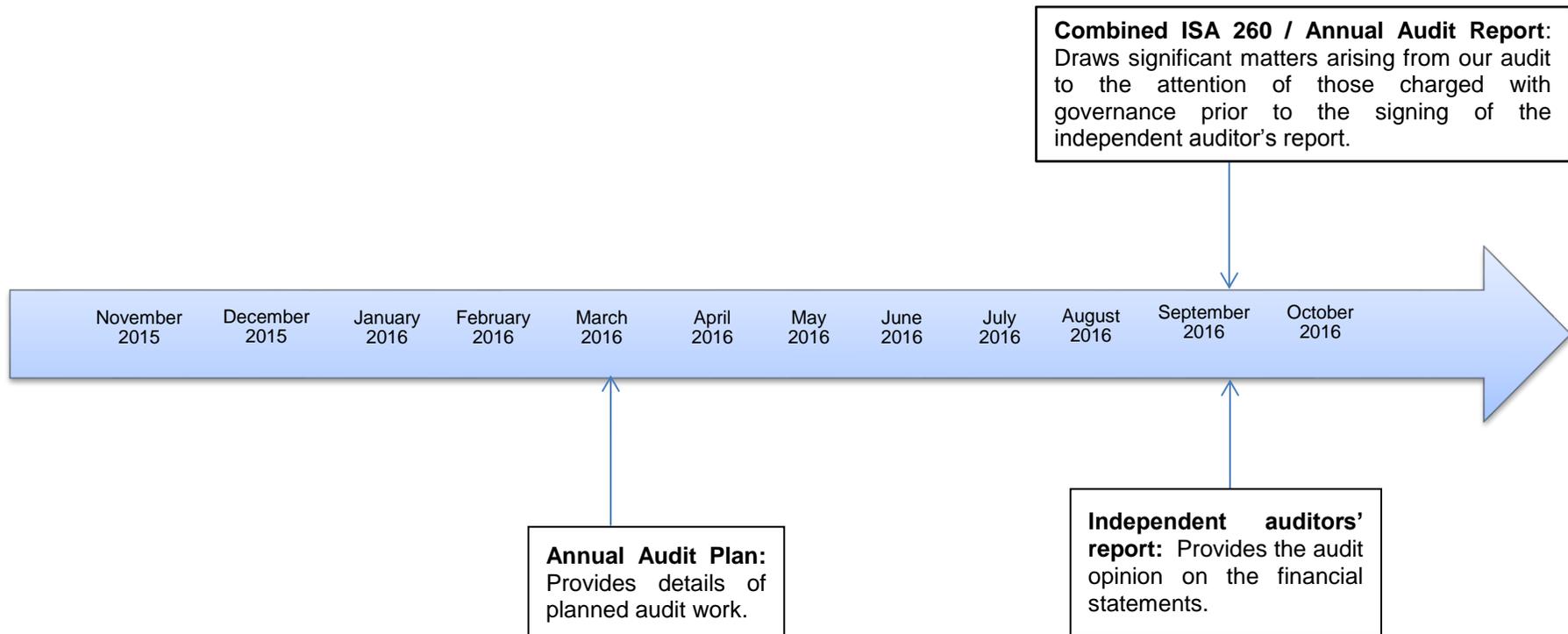
37. Bruce Crosbie, Senior Audit Manager, Audit Services is your appointed auditor. Details of the experience and skills of our team are provided in Exhibit 2. The core team will call on other specialist and support staff as necessary.

Exhibit 2: Audit team

Name	Experience
Bruce Crosbie FCCA, Senior Audit Manager (and certifying auditor)	Bruce has been involved in the external audit in the NHS and local government sectors for many years. He also has a key role in Audit Scotland's internal quality arrangements.
Jordan Roberts MSc, Trainee Auditor	Jordan joined Audit Scotland in 2012 and is ICAS exam qualified. He has worked on NHS, local government and central government audits.
Chris Windeatt MSc, Trainee Auditor	Chris joined Audit Scotland in 2013 and is in the final year of his ICAS qualification. He has worked on NHS, local government and central government audits.

Appendix 1: Planned audit outputs

The diagram below shows the key outputs planned for SESplan for 2015/16.



Appendix 2: Significant audit risks

The table below sets out the key audit risks, the related sources of assurance received and the audit work we propose to undertake to address the risks during our audit work.

Audit Risk	Source of assurance	Audit assurance procedure
Financial statement issues and risks		
1	<p>Accounting for transactions in the wrong year</p> <p>In both 2013/14 and 2014/15 we identified 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.</p> <p>Risk: Transactions may not be accounted for in the correct year.</p>	<ul style="list-style-type: none"> • Inspection of all significant invoices during accounts production process to ensure they are recorded in the correct financial year that the supplies/services relate to • Re-iterated year end instructions regarding timing of goods/services received.
2	<p>Management override of controls</p> <p>ISA 240 <i>The auditor's responsibilities relating to fraud in an audit of financial statements</i> 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.</p> <p>Risk: Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates for bias. • Evaluating significant transactions that are outside the normal course of business.

