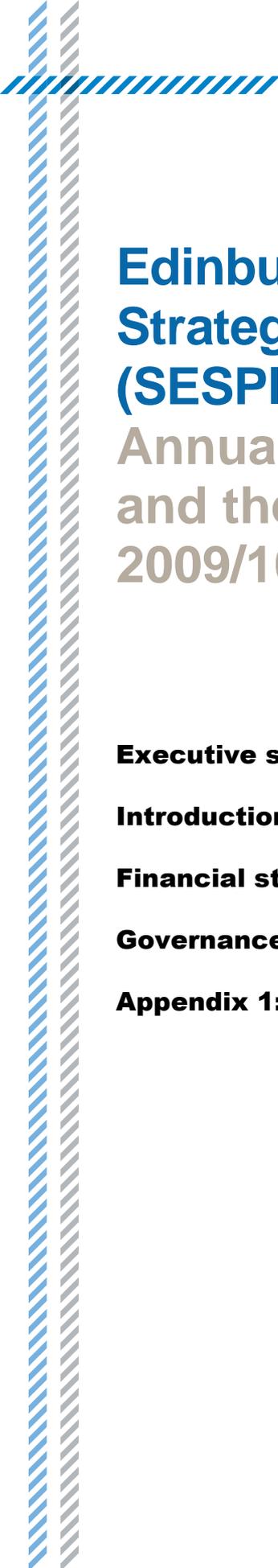




**Edinburgh and South East Scotland
Strategic Development Planning Authority
(SESplan)**

**Annual Report on the Audit to SESplan
and the Controller of Audit
2009/10**

October 2010



Edinburgh and South East Scotland Strategic Development Planning Authority (SESPlan)

Annual Report on the Audit to SESplan and the Controller of Audit 2009/10

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Executive summary

Financial statements

We are pleased to report that our independent auditors' report contains an unqualified audit opinion on the financial statements for the year ended 31 March 2010. We also certify that the accounts have been properly prepared in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

SESplan reported a surplus for the year of £10,268 (2008/09: £118,848). The general fund balance brought forward of £118,848 at 1 April 2009 increased to a cumulative net surplus balance of £129,116 at 31 March 2010. 2009/10 was the first full year of operation and expenditure related mainly to staffing and accommodation. This was funded by Scottish Government grant funding and contributions from the constituent authorities.

Governance

Fife Council's Audit and Risk Management Services provide an internal audit function to SESplan. During 2009/10, they carried out a review of SESplan's governance arrangements. The review identified a number of areas of improvement for SESplan to address and an action plan has been developed to take forward these. We have placed reliance, where appropriate, on Audit and Risk Management Services work during the year.

We have reviewed SESplan's corporate governance arrangements in relation to its systems of internal financial control and standards of conduct including the prevention and detection of fraud and corruption. Our review confirmed that the organisation's governance arrangements are, in general, satisfactory.

Conclusion

This report concludes our audit of SESplan for 2009/10. We have performed our audit in accordance with the Code of Audit Practice published by Audit Scotland, International Standards on Auditing (UK and Ireland) and Ethical Standards.

This report has been discussed and agreed with the SESplan Treasurer. We would like to thank all management and staff for their co-operation and assistance during our audit.

Scott-Moncrieff
October 2010

Introduction

- 1 This report summarises the findings from our 2009/10 audit of the Edinburgh and South East Scotland Strategic Development Authority (SESplan).
- 2 The main elements of our audit work in 2009/10 have been:
 - Audit of the financial statements, including a review of the Statement on the System of Internal Financial Control
 - Review of corporate governance arrangements
 - Review of internal financial controls and financial systems
- 3 The key findings arising from our work are summarised in this annual report.
- 4 Our findings are drawn together within two sections:
 - **Financial Statements:** summarises the key outcomes from our 2009/10 audit of SESplan's financial statements
 - **Governance:** covers a summary of SESplan's corporate governance arrangements
- 5 This report is addressed to SESplan and the Controller of Audit and will be published on Audit Scotland's website, www.audit-scotland.gov.uk.

Financial statements

Introduction

6 Financial statements are a key way by which SESplan accounts for the stewardship of the resources made available it. In this section we summarise the key outcomes from our 2009/10 audit of SESplan's financial statements.

Our Responsibilities

- 7 We audit the financial statements and give an opinion on:
- whether they give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009 – A Statement of Recommended Practice (the SORP), of the financial position of the organisation and of its income and expenditure for the year then ended; and
 - whether they have been properly prepared in accordance with the Local Government (Scotland) Act 1973.
- 8 We also review the Statement on the System of Internal Financial Control by considering the adequacy of the process put in place by the Treasurer to obtain assurances on systems of internal control. We assess whether disclosures in the statement are consistent with our knowledge of SESplan.

Independence

- 9 International Standard on Auditing 260 – Communication of Audit Matters with those Charged with Governance – requires us to communicate on a timely basis all facts and matters that may have a bearing on our independence.
- 10 We provided no additional services to SESplan during the year and can confirm that we have complied with the Auditing Practices Board Ethical Standard 1 – Integrity, Objectivity and Independence. In our professional judgement the audit process has been independent and our objectivity has not been compromised.

Legality

- 11 We have planned and performed our audit recognising that non-compliance with statute or regulations may materially effect the financial statements. Our audit procedures included the following:
- Reviewing minutes of relevant meetings
 - Enquiring of senior management and the organisation's solicitors the position in relation to litigation, claims and assessments

- Performing detailed testing of transactions and balances

12 We are pleased to report that we did not identify any instances of concern with regard to the legality of transactions or events.

Responsibility for the Statement of Accounts

13 It is the responsibility of the SESplan and the Treasurer to prepare the financial statements in accordance with the proper practices set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the SORP). This means:

- Acting within the law and ensuring the regularity of transactions
- Maintaining proper accounting records
- Preparing financial statements which give a true and fair view of the financial position of the organisation and its expenditure and income for the period ended 31 March 2010.

Overall conclusion

14 Our audit report is included on pages 14 and 15 of the annual accounts and is addressed to members of SESplan and the Accounts Commission for Scotland. The report was issued on 29 September 2010 and is unqualified. We also certify that the accounts have been prepared properly in accordance with relevant legislation, applicable accounting standards and other reporting requirements.

15 SESplan is required under Regulation 4 of the Local Authority Accounts (Scotland) Regulations 1985 to submit a copy of an abstract of their accounts to the Controller of Audit by 30 June. We are pleased to confirm that SESplan's unaudited financial statements were submitted to the Controller of Audit by the deadline of 30 June.

Format of the Accounts

16 In accordance with the designation orders and associated statutory guidance, SESplan meets the definition of a joint committee under section 106 of the Local Government (Scotland) Act 1973. Section 106 extends to the accounts and audit provision of the 1973 Act to joint committees. SESplan is therefore required to produce separate accounts which comply with the SORP.

17 The SORP specifies the principles and practices of accounting required to prepare a statement of accounts which give a true and fair view of the financial position and transactions of an organisation.

18 As part of our 2009/10 audit we considered the arrangements SESplan had in place to ensure compliance with the requirements of the SORP. Overall we concluded that SESplan has complied with the requirements of the SORP.

Audit Adjustments

- 19 We identified no major errors or weaknesses during our audit. The financial statements were updated for the potential adjustments identified during our audit work. The net effect on the financial statements is as follows:

Table 1: Impact of audit adjustments	
	£
Surplus for the year per the draft accounts	23,686
Unrecognised expenditure	(13,418)
Adjusted surplus per the audited accounts	10,268

- 20 The adjustment relates to a quarterly invoice from City of Edinburgh Council which had not been accrued for in the financial statements.

Internal Audit

- 21 Effective co-ordination between internal audit and external audit is essential in order to minimise duplication of effort and maximise the benefits of audit. Fife Council's Audit and Risk Management Services provides internal audit function to SESplan. As required by the Code of Audit Practice, we have established appropriate working arrangements with Fife Council's internal audit function.
- 22 In accordance with the Code of Audit Practice and International Standard on Auditing 610 – *Considering the work of internal audit, "the external auditor should perform an assessment of the internal audit function when internal auditing is relevant to the external auditor's risk assessment"*. Overall we concluded that reliance could be placed on the work of internal audit. To avoid duplication of effort and to ensure an efficient audit process, we have made use of internal audit work where appropriate.

Accounting and internal control systems

- 23 During our audit we reviewed the key financial systems in place within the organisation. Overall we found the systems of internal financial control reviewed to be of a good standard with controls operating at an adequate or effective level.

Statement on the System of Internal Financial Control

- 24 SESplan has published a statement on the system of internal financial control within the 2009/10 statement of accounts. The statement provides an overview of the key elements of the organisation's governance arrangements and systems of internal financial control.
- 25 As part of our audit work we are required to review the information disclosed in the statement and assess whether SESplan's opinion on the effectiveness of its internal financial controls is consistent with our understanding of the internal financial control framework.

26 During our audit we identified a number of changes required to be made to the statement to ensure it reflected the actual arrangements in place. The statement of internal financial control as presented in the annual accounts submitted to the Controller of Audit on 30 June 2010 reported the following arrangements which were not applicable or in place at SESplan:

- The Treasurers review of the effectiveness of the system of internal financial control will be informed by the certification of grant claims
- The Partnership Director's assurance certificate on internal controls

27 The statement was updated accordingly and we are satisfied with the disclosures made in the revised statement reflect the actual arrangements in place at SESplan. The revised statement is consistent with our knowledge and understanding of the internal financial control framework operating at SESplan.

Financial Position

28 SESplan reported a surplus for the year of £10,268 (2008/09: £118,848). The general fund balance brought forward of £118,848 at 1 April 2009 increased to a cumulative net surplus balance of £129,116 at 31 March 2010. 2009/10 was the first full year of operation and expenditure related mainly to staffing and accommodation. This was funded by Scottish Government grant funding and contributions from the constituent authorities.

Looking Forward

29 In 2008 the CIPFA/LASAAC local authority SORP board confirmed that from 2010/11 all local authority accounts will be prepared in accordance with International Financial Reporting Standards (IFRS). This change will bring local government bodies into line with other UK public sector bodies. It is essential that SESplan starts the transition period in 2009/10. A comparative balance sheet as at 1 April 2009 will be required.

Governance

- 30 Governance is about direction and control of organisations. It is concerned with structures and processes for decision making and accountability. Good governance can be defined as “*the way a local authority operates is based on sound decision-making and effective processes are in place to support these decisions*”.
- 31 This section sets out the main findings from our review of SESplan’s corporate governance arrangements.

Governance Arrangements

- 32 The Designation Order which formally constituted the Edinburgh and South East Scotland Strategic Development Planning Authority (SESplan) came into force on 25 June 2008. In June 2008 the SESplan joint committee was formally established. The Joint Committee comprises twelve councillors, two from each of the six constituent authorities:
- Fife Council
 - City of Edinburgh
 - East Lothian Council
 - Midlothian Council
 - Scottish Borders Council
 - West Lothian Council
- 33 As a group, these councils have a statutory duty to work together to prepare, and keep under review, a strategic development plan for the Edinburgh city region.
- 34 During 2009/10, Fife Council’s internal audit service carried out a review of SESplan’s governance arrangements. The review identified a number of areas of improvement for SESplan to address (table 2). We have placed reliance, where appropriate, on this work during the year.

Table 2: Areas for improvement identified by internal audit

- SESplan has no system for following up points arising at Joint Committee meetings to ensure that they are reported back and results included in the minutes. This is particularly important where ratification is required from Member Authorities.
- The objectives, obligations and responsibilities of SESplan and the Member Authorities, and the performance management and reporting requirements for administrative and financial support are not clearly set out in the governance documents.
- SESplan’s governance arrangements have not been reviewed to assess how it does and wishes to perform its business, and how this is and should be set out in its official documents
- SESplan has not considered either arrangements for assessing, obtaining or monitoring Best Value or the assumption in the statutory guidance that, apart from start up costs, only a redistribution of existing council resources is required.

Table 2: Areas for improvement identified by internal audit

- SESplan does not adequately monitor that member authorities fulfil their roles in providing administrative support and complying with SESplan's Financial Regulations
- SESplan should develop a publications policy and procedures to ensure it meets its duties for accountability for public money.

Source: Fife Council's internal audit report (draft), SESplan governance review

- 35 The draft report also notes that SESplan has not formally agreed arrangements for obtaining and funding its administrative support (financial, HR and legal services) through service level agreements, including a scheme for monitoring and reporting the provision and costs. We also highlighted this in our 2008/09 annual audit report to SESplan and the Controller of Audit.
- 36 Fife Council's internal audit report includes an action plan with recommendations to address these points. We would encourage SESplan to address these as a matter of priority.

Risk management

- 37 An important feature of a robust system of internal control is a developed and integrated approach to risk management. Effective risk management will deliver an appropriate balance between risk and control, more effective decision making, better use of limited resources and greater innovation.
- 38 SESplan has developed a risk register which provides a record of the key risks facing the organisation. During our review however we noted that the the register is not regularly reviewed and updated.

Action plan point 1

Prevention and detection of fraud and irregularity

- 39 The integrity of public funds is at all times a matter of concern. As external auditors we are required to consider the arrangements made by management for the prevention and detection of fraud and irregularities. Our responsibilities in this area are addressed in a number of ways:
- Our systems based audit approach to the major accounting systems is planned so as to provide a reasonable expectation of detecting material misstatements resulting from fraud or error
 - We focus on specific areas of high risk for potential fraud and irregularity and review the control arrangements in place in these areas
 - We review the Audit Scotland Technical Bulletins with regard to fraud reports and ensure that the authority has adequate arrangements in place to stop similar frauds occurring
 - We examine the key governance documents issued by the organisation to ensure that they deal adequately with fraud and corruption and provide a framework for exercising strong internal control

- 40 We have performed a review of the arrangements for the prevention and detection of fraud, irregularity and corruption in place at SESplan. Our review concluded that the arrangements are satisfactory to prevent and detect fraud and other irregularities.

Performance

- 41 The Joint Committee has developed a Development Plan Scheme (DPS) which outlines how the organisation will prepare and maintain the strategic development plan. The DPS includes a timetable for the creation of the strategic development plan. Progress on the implementation of the DPS is monitored by the Joint Committee. The DPS is reviewed and updated on an annual basis. Table 3 shows the progress to date against the timetable.

Stage	Implementation date	Completed
SESplan created	June 2008	✓
Approval of Edinburgh and South East Scotland SDP Boundary	November 2008	✓
Publication of Development Plan Scheme Number 1	March 2009	✓
Preparation of Main Issues Report and supporting documents, commissioning and receiving background studies.	January 2009 – December 2009 (now March)	✗
Publication of Main Issues Report (MIR) and Environmental Report (ER)	Dec 2009 May 2010	✗
Source: SESplan DPS1 and DPS2		

- 42 The preparation and subsequent publication of the Main Issues Report and Environmental Report was delayed due as the background information required to prepare the report not being formally published until May 2010. SESplan do not envisage that this will delay the overall project. It is the intention that the final strategic development plan will be submitted to Scottish Ministers in line with the original forecast of March 2012.

Appendix 1: Action Plan

Our action plan details the key weaknesses and opportunities for improvement that we have identified during this review. To assist SESplan in assessing the significance of the issue raised and prioritising the action required to address it, the recommendation has been rated.

It should be noted that the weaknesses identified in this report are only those that have come to our attention during the course of our normal audit work. The audit cannot be expected to detect all errors, weaknesses or opportunities for improvements in management arrangements that may exist.

Our grading structure helps management assess the significance of the issues raised and prioritise the action required to address them. The grading structure is as follows:

Grade 5	Very high risk exposure - Major concerns requiring Joint Committee attention.
Grade 4	High risk exposure - Material observations requiring management attention.
Grade 3	Moderate risk exposure - Significant observations requiring management attention.
Grade 2	Limited risk exposure - Minor observations requiring management attention.
Grade 1	Efficiency / housekeeping point.

Action Plan Ref	Para Ref	Action Plan Point	Recommendation and Rating	Management comments	Responsible Officer	Agreed Completion Date
1	38	<p>Risk management</p> <p>Whilst SESplan has established a risk register to record all potential risks to the organisation, the register is not subject to regular review by management. A risk register is an important tool in ensuring that risks have been identified and managed by the organisation.</p>	<p>We recommend that SESplan put in place arrangements to regularly review and update its risk register.</p> <p>Priority 3</p>	<p>Establish a process of regular review of the risk register by the Project Board and annual review by the Joint Committee agreed by the Joint Committee.</p>	Ian Angus	31 March 2011



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