

## ITEM 8 – ANNUAL AUDIT PLAN 2019/2020

**Report by: Robin Edgar, Acting SESplan Manager/Team Manager, East Lothian Council**

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### Purpose

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This report presents the SESplan Annual Audit Plan for the year 2019/2020. It also seeks delegated authority to review the accounts, and sign off the final Audit.

### Recommendations

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It is recommended that the SESplan Joint Committee:

1. Notes the SESplan Annual Audit Plan 2019/2020 , attached as Appendix A to this Report; and
2. Seeks delegated authority to the Convener, Vice Convener and Chair of the SESplan Board to consider the unaudited accounts, and sign off the Annual Audit.

### Resource Implications

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As set out below.

### Legal and Risk Implications

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As set out below.

### Policy and Impact Assessment

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No separate impact assessment is required.

### Background

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#### 1. Unaudited Accounts 2019/2020

- 1.1 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. As there is no Joint Committee in 2020 before these dates it is recommended that authority to consider these accounts is delegated to the Convener, Vice Convener and Chair of the SESplan Board.

The Unaudited Accounts will be prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016 - 2017 and the Service Reporting Code of Practice 2016 - 2017. The Unaudited Accounts will be uploaded to the SESplan website, with copies also made available for public inspection.

## **2. Annual Audit Plan**

- 2.1 The Annual Audit Plan contains an overview of the planned scope and timing of the audit which is carried out in accordance with International Standards on Auditing (ISAs), the Code of Audit Practice, and guidance on planning the audit. This plan sets out the work necessary to allow the preparation of an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.
- 2.2 The audit aims to add value to the Edinburgh and South East Scotland Strategic Development Planning Authority (SESplan) through external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, it is intended to help SESplan promote improved standards of governance, better management and decision making and more effective use of resources.
- 2.3 Based on discussions with staff, and a review of supporting information some significant risk areas have been identified for SESplan. These have been categorised into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in the Annual Audit Plan.
- 2.4 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. Due to the timing of the next Joint Committee it is recommended that authority is delegated to the Convener of the Joint Committee, Vice Convener and Chair of the SESplan Project Board to sign off the audited accounts.

## **Appendices**

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Appendix A Annual Audit Plan 2019/2020

## **Report Contact**

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Robin Edgar, Acting SESplan Manager/Team Manager, East Lothian  
Council

# Edinburgh and South East Scotland Strategic Development Planning Authority

Annual Audit Plan 2019/20 - DRAFT



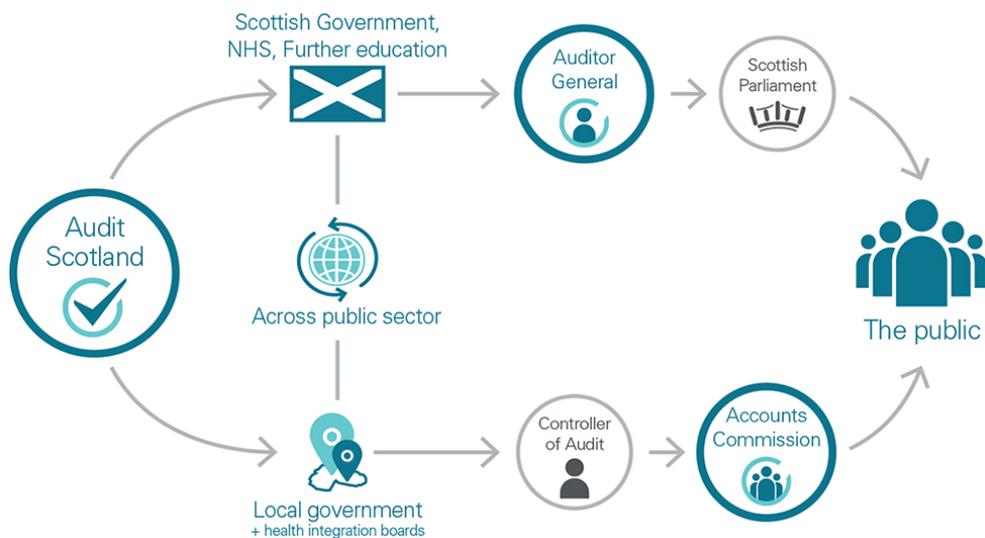
Prepared for Edinburgh and South East Scotland Strategic Development Planning Authority

February 2020

## 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 which is carried out in accordance with International Standards on Auditing (ISAs), the [Code of Audit Practice](#), and [guidance on planning the audit](#). This plan sets out the work necessary to allow us to provide an independent auditor's report on the annual accounts and meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency and value for money.

## Adding value

3. We aim to add value to the Edinburgh and South East Scotland Strategic Development Planning Authority (SESplan) through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help SESplan promote improved standards of governance, better management and decision making and more effective use of resources.

## Audit risks

4. Based on our discussions with staff, and a review of supporting information we have identified the following significant risk areas for SESplan. We have categorised these risks into financial statements risks and wider dimension risks. The key audit risks, which require specific audit testing, are detailed in [Exhibit 1](#).

## Exhibit 1 2019/20 Significant audit risks

 Audit Risk	Source of assurance	Planned audit work
<b>Financial statements risks</b>		
<p><b>1 Risk of material misstatement caused by management override of controls</b></p> <p>Auditing Standards require that audits are planned to consider the risk of material misstatement caused by fraud, which is presumed to be a significant risk in any audit. This includes the risk of management override of controls that results in fraudulent financial statements.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<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 Risk of material misstatement caused by fraud in expenditure</b></p> <p>ISA240 includes an assumption of fraud over income. The vast majority</p>	<p>Budget monitoring by management.</p> <p>Financial regulations in place.</p>	<ul style="list-style-type: none"> <li>• Detailed testing of transactions focusing on the greater areas of risk.</li> </ul>

 Audit Risk	Source of assurance	Planned audit work
<p>of SESplan's income is from member councils and this specific risk is rebutted. The Code of Audit Practice extends the assumptions within ISA240 to the risk of fraud over expenditure.</p>	<p>Internal controls in financial systems to mitigate risks of error or manipulation.</p>	
<b>Wider dimension risks</b>		
<p><b>3 Governance and transparency</b></p> <p>Since July 2019, with the introduction of the Planning (Scotland) Act 2019, the primary function of SESplan has changed from preparing strategic development plans to preparing Regional Spatial Strategies.</p> <p>Secondary legislation and detailed guidance have still to be published. In the meantime, a lead Manager has been appointed by the joint committee and the six SESplan constituent councils have agreed to work together to progress an indicative regional spatial strategy through a Regional Growth Framework.</p> <p>During any transition period there is a risk that there is a negative impact on the authority's governance and performance arrangements.</p>	<p>The SESPlan Board will continue to liaise with Scottish Government to establish the resource requirements for meeting any new duties under the 2019 Act. It will also liaise with City Region Deal Officers in respect of new Governance arrangements and Delivery opportunities for the production of a Regional Spatial Strategy.</p>	<ul style="list-style-type: none"> <li>Review of reports to SESplan to monitor the progress of the changes to the planning framework and the impact on The Authority.</li> <li>Review reports to the joint committee to monitor the governance arrangements.</li> </ul>
<p><b>4 Risk management</b></p> <p>Current Governance arrangements require the joint committee to consider an annual report on risk management. We noted the last risk management report submitted to the committee was in December 2018.</p> <p>The management of risk is particularly important as the organisation progresses through a period of change.</p>		<ul style="list-style-type: none"> <li>We will monitor and review reports submitted to the joint committee in 2020, providing comment in our Annual Audit Report.</li> </ul>

Source: Audit Scotland

## Reporting arrangements

**5.** Audit reporting is the visible output for the annual audit. All of 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).

**6.** 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.

**7.** We will provide an independent auditor's report to SESplan and the Accounts Commission setting out our opinions on the annual accounts. We will provide

SESplan and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

## Exhibit 2

### 2019/20 Audit outputs

### Target Date

Audit Output	Target date	Committee Date
Annual Audit Plan	17 March 2020	30 March 2020
Issue of Letter of Representation and draft Independent Auditor's Report	7 September 2020	21 September 2020
Independent Auditor's Report (signed)		30 September 2020
Annual Audit Report		30 September 2020

Source: Audit Scotland

## Audit fee

**8.** The proposed audit fee for the 2019/20 audit of Edinburgh and South East Scotland Strategic Development Planning Authority is £2,960 (2018/19: £2,900]. In determining the audit fee we have taken account of the risk exposure of Edinburgh and South East Scotland Strategic Development Planning Authority, and the planned management assurances in place. Our audit approach assumes receipt of the unaudited annual accounts with a complete working papers package by 30 June 2020.

**9.** Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts 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 out with our planned audit activity.

## Responsibilities

### The Joint Committee and Treasurer

**10.** 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.

**11.** The audit of the annual accounts does not relieve management or the Joint Committee as those charged with governance, of their responsibilities.

### Appointed auditor

**12.** Our responsibilities as independent auditors are established by the 1973 Act for local government, and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

**13.** Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. 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.

**14.** Our audit team membership has changed significantly since last year. We include full details of the current team in [Appendix 1](#).

# Audit scope and timing

## Annual accounts

**15.** The annual accounts, which include the financial statements, will be the foundation and source for most 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 Edinburgh and South East Scotland Strategic Development Planning Authority 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 Edinburgh and South East Scotland Strategic Development Planning Authority 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.

**16.** We will give an opinion on whether the financial statements:

- give a true and fair view in accordance with applicable law and the 2019/20 Code of the state of affairs of SESplan as at 31 March 2020 and of its income and expenditure for the year then ended
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union, as interpreted and adapted by the 2019/20 Code of practice on local authority accounting in the UK
- 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.

## Statutory other information in the annual accounts

**17.** We also review and report on statutory other information published within the annual accounts including the management commentary, annual governance statement and the remuneration report. We give an opinion on whether these have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

**18.** We also review the content of the annual report for consistency with the financial statements and with our knowledge. We report any uncorrected material misstatements in statutory other information.

## Materiality

**19.** We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any



uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

20. We calculate materiality at different levels as described below. The calculated materiality values for Edinburgh and South East Scotland Strategic Development Planning Authority are set out in [Exhibit 3](#).

### Exhibit 3 Materiality values

Materiality	Amount
<b>Planning materiality</b> – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross expenditure for the year ended 31 March 20 based on the approved budget.	£1,300
<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 75% of planning materiality.	£975
<b>Transactions performance materiality</b>	£135
<b>Reporting threshold (i.e., clearly trivial)</b> – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£100

Source: Audit Scotland

### Timetable

21. To support the efficient use of resources it is critical that the annual accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 4](#)

### Exhibit 4 Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual accounts by those charged with governance	June 2020 (tbc)
Latest submission date of unaudited annual accounts with complete working papers package	30 June 2020
Latest date for final clearance meeting with Treasurer	31 August 2020
Agreement of audited unsigned annual accounts;	7 September 2020
Issue of draft Annual Audit Report including ISA 260 requirements, draft letter of representation and proposed independent auditor's report	7 September 2020

### Internal audit

22. 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 Services (ARMS). We seek to rely on the work of internal audit wherever possible to avoid duplication, however there are no planned internal audit reviews for SESplan this year.

## Audit dimensions

**23.** 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



Source: Code of Audit Practice

**24.** Our standard audits are based on four audit dimensions that frame the wider scope of public sector audit requirements. These are: financial sustainability, financial management, governance and accountability and value for money.

**25.** The Code of Audit Practice includes provisions relating to the audit of small bodies. Where the application of the full wider audit scope is judged by auditors not to be appropriate to an audited body then the annual audit work can focus on the appropriateness of the disclosures in the governance statement and the financial sustainability of the body and its services. In the light of the volume and lack of complexity of the financial transactions, we plan to apply the small body provisions of the Code to the 2019/20 audit of the SESplan.

### Governance and transparency

**26.** 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.

### Financial sustainability

**27.** 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 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
- the appropriateness and effectiveness of arrangements in place to address any identified funding gaps.

## Independence and objectivity

**28.** Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. 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 robust arrangements in place to ensure compliance with these standards including an annual “fit and proper” declaration for all members of staff. The arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland’s Ethics Partner.

**29.** The engagement lead (i.e. appointed auditor) for SESplan is Patricia Fraser, 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 Edinburgh and South East Scotland Strategic Development Planning Authority.

## Quality control

**30.** 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.

**31.** 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 (and supporting guidance) 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 and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

**32.** 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.

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# Appendix 1: The Audit Team

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The core audit team consists of the following staff and might be supported at peak times with additional resources to ensure key reporting deadlines are met:



**Patricia Fraser**

**Senior Audit Manager**

✉ [pfraser@audit-scotland.gov.uk](mailto:pfraser@audit-scotland.gov.uk) ☎ 0131 625 1966

I am the appointed independent auditor established under the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice and guided by the auditing profession's ethical guidance.

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[Insert picture]

**Zoe Hedridge**

**Trainee Auditor**

✉ [zheadridge@audit-scotland.gov.uk](mailto:zheadridge@audit-scotland.gov.uk) ☎ 0131 625 1753

Zoe will lead the delivery and quality of the audit ensuring the audit is properly planned, resourced and concluded within time.

# Edinburgh and South East Scotland Strategic Development Planning Authority

## Annual Audit Plan 2019/20 - DRAFT

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or [info@audit-scotland.gov.uk](mailto:info@audit-scotland.gov.uk)

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