

Public Document Pack



To: Councillor Crockett, Convener; Farquharson, Vice-Convener; Lord Provost Peter Stephen; and Councillors Cassie, Cooney, Donnelly, Hunter, McDonald, Penny, Reynolds, Robertson, John Stewart, Kevin Stewart, Wendy Stuart and John West.

Town House,
ABERDEEN 31 May 2010

AUDIT AND RISK COMMITTEE

The Members of the **AUDIT AND RISK COMMITTEE** are requested to meet in Committee Room 2 - Town House on **TUESDAY, 8 JUNE 2010 at 2.00 pm.**

JANE G. MACEACHRAN
HEAD OF LEGAL AND DEMOCRATIC SERVICES

BUSINESS

EXEMPT BUSINESS

- 1.1 Members are requested to resolve that any exempt business on this agenda be considered with the press and public excluded

MINUTES AND COMMITTEE BUSINESS STATEMENT

- 2.1 Minute of Previous Meeting of 27 April 2010 (Pages 1 - 8)
- 2.2 Committee Business Statement (Pages 9 - 12)

GENERAL BUSINESS

- 3.1 Audit Progress Report 2009/10 - Report by Henderson Loggie (Pages 13 - 18)
- 3.2 Financial Statement Audit Plan 09-10 - Report by Henderson Loggie (Pages 19 - 56)
- 3.3 Risk Management Progress Update - Report by Director of Corporate Governance (Pages 57 - 88)
- 3.4 Delay in completion of Walker Road School Refurbishment Programme - Report by Director of Education, Culture and Sport (Pages 89 - 92)
- 3.5 Bank Reconciliation Progress Report - Report by Head of Finance (Pages 93 - 96)
- 3.6 Internal Audit Outsourced Activity Progress Report - Report by Pricewaterhouse Coopers (Pages 97 - 116)
- 3.7 Refurbishment of Kepplehills Garages - Referral from Housing and Environment Committee of 25 May 2010 (Pages 117 - 126)

ITEMS WHICH THE COMMITTEE MAY WISH TO CONSIDER IN PRIVATE

- 4.1 Internal Audit Reports Issued - Report by the Internal Audit Manager (Pages 127 - 198)
- 4.2 Implementation of Internal Audit Recommendations and Results of Physical Verification Checks - Report by Internal Audit Manager (Pages 199 - 216)

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Should you require any further information about this agenda, please contact Karen Riddoch, tel. (52)2723 or email kariddoch@aberdeencity.gov.uk

AUDIT AND RISK COMMITTEE

ABERDEEN, 27th April, 2010. - Minute of Meeting of the AUDIT AND RISK COMMITTEE. Present:- Councillor Crockett, Convener; Councillor Farquharson, Vice-Convener; Lord Provost Peter Stephen; and Councillors Cassie, Cooney, Cormie (as substitute for Councillor McDonald), Donnelly, Dunbar (as substitute for Councillor John West), Hunter, Penny, Robertson, John Stewart, Kevin Stewart and Wendy Stuart.

DETERMINATION OF EXEMPT BUSINESS

1. In terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973, the Committee resolved to exclude the press and public from the meeting during consideration of the following items of business so as to avoid disclosure of exempt information of the class described in the following paragraphs of Schedule 7(A) to the Act:- article 9 (paragraph 6); articles 10 and 11(paragraph 1); and article 12 (paragraphs 1, 6, 8 and 10).

MINUTE OF PREVIOUS MEETING

2. The Committee had before it the minute of its previous meeting of 2nd March, 2010.

The Committee resolved:-

- (i) that in relation to Article 1, resolution (ii), to note the oral update provided by the Convener in regard to breaches of confidentiality and to request that a written note of the meeting between the Convener, Vice-Convener, Chief Executive and the Director of Corporate Governance be circulated to the Committee; and
- (ii) to approve the minute subject to amending Article 1, resolution (iii), to read:- in terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973 to exclude the press and public from the meeting during consideration of items 3.1 and 3.2 on the agenda (articles 7 and 8 of the minute refers) so as to avoid disclosure of exempt information of the class described in paragraph 1 of Schedule 7(A) of the Act.

COMMITTEE BUSINESS STATEMENT

3. The Committee had before it a statement of business prepared by the Head of Legal and Democratic Services.

The Committee resolved:-

- (i) that in relation to item 3 (RM – CC/SA/0708 – Allocation of Central Charges), to request the Head of Finance to report to this Committee once the work had been completed;

- (ii) that in relation to item 5 (Tied Houses), to note (a) the oral update provided by the Head of Asset Management and Operations; and (b) that reports would be submitted to this Committee and the Finance and Resources Committee in the next cycle of meetings; and
- (iii) to otherwise note the statement.

AUDIT PROGRESS REPORT 2009/10

4. The Committee had before it a report by Henderson Loggie, external auditor which detailed progress in relation to the external audit operational plan for 2009/10.

The Committee resolved:-
to note the report.

INTERNAL AUDIT REPORT ISSUED

5. The Committee had before it (1) a report by the Internal Audit Manager which appended a recently completed audit report on the following service:- Corporate Governance – Application Ownership and Support, issued in March, 2010; and (2) a management statement from the Director of Corporate Governance in response to the completed report.

The Committee resolved:-
to approve the issue of the internal audit report and endorse the recommendations for improvement contained therein.

BANK RECONCILIATION PROGRESS REPORT

6. With reference to Article 6 of the minute of its meeting of 2nd March, 2010, the Committee had before it a report by the City Chamberlain which provided an update on the progress to date in relation to the bank reconciliation process and the implementation of the automatic bank reconciliation module.

The report advised that since the last update to the Committee, there continued to be positive progress in relation to the bank reconciliation with continuing timely and robust clearance of items from the reconciliation to ensure that it was up-to-date with the timescales agreed for the process. The February reconciliations had been completed and work had commenced on the preparation of a comprehensive year-end report on the reconciliations. The report explained that the Automated Bank Reconciliation Project Board had been discontinued in February 2010 due to the development and implementation stage of the project being completed and moving to the operation and maintenance stage.

The report recommended:-

that the Committee note the current positive progress on maintaining the bank reconciliations and on the implementation of the automated bank reconciliation system.

The Committee resolved:-

to approve the recommendation contained in the report.

ANNUAL AUDIT PLAN 2010/11

7. The Committee had before it a report by the Director of Corporate Governance which informed members of the development of the Annual Audit Plan for 2010/11 and sought approval of its content.

The report advised that the Annual Internal Audit planning process was designed to ascertain the level of audit resource required, achieve optimum use of audit time and to ensure that the maximum benefit was derived from the audit process for the organisation.

The report summarised the process used to update the Strategic Plan and appended the Audit Plan for 2010/11 which listed the planned audits for each Service.

The report recommended:-

that the Committee –

- (a) approve the Annual Audit Plan 2010/11;
- (b) note that the planned outsourcing of Internal Audit Services was progressing and that the completion of the plan in future years would fall to the successful bidder; and
- (c) agree that the content of the Annual Plan be received on a quarterly basis and that any proposed amendments be reported to the Committee together with a statement of progress against the Annual Plan.

The Committee resolved:-

to approve the recommendations contained in the report.

HOUSING BENEFIT AND COUNCIL TAX BENEFIT SUBSIDY CLAIM 2007/08

8. The Committee had before it a report by the Director of Corporate Governance which informed members of the current position in relation to the Housing Benefit and Council Tax Benefit Subsidy Claim 2007/08.

The report advised that the Housing and Council Tax Benefit Service made benefit payments totalling £52.03m in 2007/08 and £53.25m in 2008/09. The Council reclaimed the expenditure via the Subsidy Regime which was subject to external audit scrutiny. The 2007/08 Subsidy Claim was submitted to the Department of Work and Pensions (DWP) at the end of May 2008, which was then audited by the external auditors with their assessment being completed by November 2008.

Subsidy payments were made based on the claim submitted to the DWP in May with any adjustments being made after the subsidy had been audited.

The subsidy in 2007/08 was audited by Henderson Loggie who adopted Audit Commission Guidance of using the 'HB Count' methodology which was not mandatory across all Scottish Councils. As a result, a number of adjustments were identified and extrapolated across the whole benefit caseload which resulted in a qualification of the Council's subsidy claim seeking an adjustment of 0.51% (circa £264,490).

Further to this, in July 2009, the DWP advised the Council that there had been a technical breach in the referral of rent allowances in respect of charitable organisations. These cases were investigated by the Service, which rectified the technical breach and concluded that a reasonable adjustment should, at its maximum, be 0.36% (circa £187,509), which was the overall loss to the public purse subsidy claimed, rather than the potential 1.7% (circa £900,000) that had been identified by the DWP. Taking account of the two separate issues, the Service had made representations, and believed that the reasonable adjustment would be in the region of 0.53% (circa £274,177) and not the maximum 1.96% (circa £1.023m) of total subsidy claimed.

The report explained that due to the timing of the issue, the matter had been carried forward into the 2008/09 claim which the DWP had not considered to date although it was envisaged that they would take a similar approach when considering the 2008/09 claim. The Service believed that future adjustments should be limited to 0.25% (circa £132,663), which was the loss to the public purse rather than the potential 2.2% (circa £1.178m) of total subsidy claimed.

The report stated that the Service, and Henderson Loggie, had raised with the DWP that the methodology used may have disadvantaged the Council compared to other Scottish Councils where a different methodology had been used. Henderson Loggie also supported the view of the Service that the approach taken with the rent referral issue was reasonable.

The report added that feedback was awaited from the DWP, which was expected during mid May, as to the level of adjustment to be applied.

The report recommended:-

that the Committee -

- (a) request the Director of Corporate Governance to continue to liaise with the Department of Work and Pensions to ensure that the Council maximised the level of Benefit Subsidy due to the authority;
- (b) agree to receive an update the outcome of those ongoing discussions; and
- (c) note that the City Chamberlain would be required to take account of this issue in preparation of the closing of the draft accounts for 2009/10.

The Committee resolved:-

- (i) to note that Henderson Loggie would circulate details on the actual number of sample cases that had been audited; and
- (ii) to otherwise approve the recommendations contained within the report.

In accordance with the decision recorded under Article 1 of this minute, the following items were considered with the press and public excluded.

AUDIT OUTPUTS, INPUTS AND FEES

9. With reference to Article 5 of the minute of its meeting of 2nd March, 2010, the Committee had before it a report by Henderson Loggie, External Auditor, which provided a breakdown of the costs associated with the annual fee for undertaking the external audit function.

The report advised that the Council's audit was completed under the 'fee for audit' concept which set a level of audit fee based on the outputs that would be delivered and would normally be set within an indicative fee range notified by Audit Scotland to the Chief Executive in the autumn of each year. The outputs delivered were influenced by statutory requirements and the requirements of the annual Audit Scotland planning guidance.

The report provided a breakdown of the planned outputs which contained graphical information to show the level of work to be undertaken and the percentage of officer time required to carry out the work.

The Committee resolved:-

- (i) to thank the External Auditor for providing the information in such a helpful format; and
- (ii) to note the information provided.

INTERNAL AUDIT REPORTS ISSUED

10. The Committee had before it (1) a report by the Internal Audit Manager which appended recently completed audit reports on the Services as detailed below; and (2) management statements from the appropriate Director in response to each of the completed reports.

<u>Service</u>	<u>Title</u>	<u>Date Issued</u>
Corporate Governance – Human Resources	Health & Safety	February 2010
Education, Culture & Sport	Education Establishments Financial Control	February 2010

The Committee resolved:-

to approve the issue of the internal audit reports and endorse the recommendations for improvement contained therein.

IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS AND RESULTS OF PHYSICAL VERIFICATION

11. The Committee had before it a report by the Internal Audit Manager which (1) detailed a number of recommendations previously approved in audit reports issued, the implementation of which was overdue; and (2) for selected audits, advised on the implementation status checks on recommendations advised by auditees to Internal Audit as completed.

The Committee received updates from various officers in relation to the audit recommendations affecting their services and considered revised implementation dates where appropriate.

The Committee resolved:-

- (i) that in relation to Audit RM-RDD/CT/0802 (Hanover Street School Refurbishment Contract) to approve the revised implementation date of 31st May, 2010 in respect of items 4.2.4.2 (i) and 4.2.6 (i);
- (ii) that in relation to Audit CG/SA/0911 (Marischal College) item 4.2.1, to record its dissatisfaction that no officer was present to provide an update;
- (iii) that in relation to Audit HE/SA/0931 (Homelessness) – items 4.2.2 (i) and (ii), to record its dissatisfaction that no officer was present to provide an update and to instruct officers to submit a report to the next meeting;
- (iv) that in relation to Audit CG/R0918 (External Management Information) item 4.2.1, to note that a report had been submitted to the Social Care and Wellbeing Committee on 22nd April, 2010, with a further report to be submitted to that Committee in June 2010; and
- (v) to instruct Directors to ensure that when an Audit report relating to their Service was before the Committee that an officer was present to discuss the relevant issues.

MATTER OF URGENCY

The Convener intimated that he had directed in terms of Section 50(B)(4)(b) of the Local Government (Scotland) Act 1973 that the following item of business be considered as a matter of urgency to enable the contract to be awarded and for work to commence by 1st June, 2010.

CONTRACT AWARD – INTERNAL AUDIT SERVICES

12. With reference to Article 12 of the minute of its meeting of 12th January 2010, the Committee had before it a report by the Director of Corporate Governance which provided an update on the recent tender exercise for the supply of Internal Audit Services for the Council and sought approval to award the contract to the preferred bidder.

The report advised that two responses to the advertisement had been received and that officers within Corporate Governance had undertaken a comprehensive

evaluation process, assisted by the Council's Central Procurement Unit. As a result of the evaluation process a preferred bidder had been identified.

The report recommended:-

that the Committee approve the following proposal for its interest and remit it for approval to the Finance and Resources Committee:-

Subject to the agreement of terms and conditions and the signing of contracts, to award the contract for the supply of Internal Audit Services for Aberdeen City Council, for a period of three years, with an option for a one year extension, to PricewaterhouseCoopers LLP.

The Committee resolved:-

- (i) to request officers to ensure that all relevant information is included in future reports seeking approval to award a contract to a preferred bidder, particularly in regard to whether information had been submitted after the deadline and had to be disregarded on that basis; and
- (ii) to otherwise approve the recommendation contained in the report.

- **BARNEY CROCKETT, Convener**.

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**AUDIT AND RISK
COMMITTEE BUSINESS**

8th June 2010

<u>No.</u>	<u>Minute Reference</u>	<u>Committee Decision</u>	<u>Update</u>	<u>Lead Officer(s)</u>	<u>Report Due</u>	<u>Report Expected (if known)</u>
1.	Continuous Improvement 02.06.09 Article 13	<p><u>Risk Management Progress Update</u></p> <p>The Committee resolved to request that each Service Risk Register be reported to the appropriate Committee once every six months.</p>	<p>At its meeting on 8th September 2009 the Committee requested that the Corporate Governance Risk Register be reported to the Committee before the end of the year</p> <p>At its meeting on 3rd December 2009, the Committee agreed that a report would be submitted to this Committee twice a year to provide an update on the Service Risk Registers and to review the Corporate Risk Register.</p> <p>A report is on the agenda</p>	Director of Corporate Governance	08.06.10	08.06.10
2.	Scrutiny Panel 01.09.08 Article 12	<p><u>Audit RM-CS/SA/0601 (Legal Accounting and Costing) items 4.1.3, 4.2.1, 4.3.2 (i), 4.3.2 (ii), 4.3.3 and 4.3.4</u></p> <p>The Panel agreed to request the City Solicitor in consultation with the Internal Audit Manager to investigate the resource requirements for the implementation of Eureka and report back on the findings at the next meeting of the Panel.</p>	At its meeting on 3 October, 2008, the Panel instructed the City Solicitor in consultation with the Convener to liaise with the software consultant to identify any possible low cost interim arrangement that could be implemented until a new Council structure had been approved and to report back at the next meeting of the Panel. It was noted at its meeting on 1 December, 2008, that following discussions with the	City Solicitor Internal Auditor	08.09.09	

<u>No.</u>	<u>Minute Reference</u>	<u>Committee Decision</u>	<u>Update</u>	<u>Lead Officer(s)</u>	<u>Report Due</u>	<u>Report Expected (if known)</u>
			<p>software company it had not proved possible for them to provide a low cost interim solution, and that therefore implementation of changes to Eureka should be postponed until it was known if there would be any amendment to the current Council Service structure.</p> <p>This item refers to the need to re-align the Eureka database to reflect current structure and hence group bills for legal services provided correctly and timeously. This item will be progressed after the realignment of the Services.</p>			
3.	Scrutiny Panel 01.12.08 Article 10	<p><u>RM-CC/SA/0708 – Allocation of Central Charges</u></p> <p>The Panel agreed to request officers to provide benchmark information on the Council's performance in the allocation of central charges in comparison with other local authorities to all members of the Panel.</p>	<p>A separate piece of work has been undertaken on reviewing internal recharges, which includes the allocation of central charges and identifying potential areas for efficiencies.</p> <p>The outcomes identified a number of areas for improvement. For instance the need</p> <ul style="list-style-type: none"> • to identify cost drivers and the gross cost of the service areas for recharging • to ensure that information is kept up to date and current information is used • maximise income by evaluating current unit costs and prices 	Head of Finance	08.09.09	

<u>No.</u>	<u>Minute Reference</u>	<u>Committee Decision</u>	<u>Update</u>	<u>Lead Officer(s)</u>	<u>Report Due</u>	<u>Report Expected (if known)</u>
			<p>It is proposed that the Director of Corporate Governance and the Head of Finance will take forward the outcome of the review for the allocation of Central Charges in 2010/11.</p> <p>This will improve benchmark information on central charges for comparison with other authorities.</p>			
4.	Scrutiny Panel 19.01.09 Article 9	<p><u>Bank Reconciliations Progress Report</u></p> <p>The Panel agreed:-</p> <p>(i) that a further report be presented prior to its meeting in March which would include the Auditor's final report and the management action plan;</p> <p>(ii) to note that the value of the transactions to be processed and a review of the necessary resource requirements would be detailed in the report to be submitted to the next meeting of the Panel on 2 March, 2009.</p>	<p>At its meeting on 8 September, 2009, the Committee agreed to request the City Chamberlain to report back on progress with the recommendations on a regular basis.</p> <p>This will be a standing item on the agenda for the near future.</p> <p>Update: It is proposed, subject to the Committee's agreement, that the continuation of this standing item be reviewed as part of reporting to Committee at its meeting on 21 September 2010</p> <p>A report is on the agenda</p>	Head of Finance	08.06.10	08.06.10
5.	Audit and Risk 08.09.09 Article 5	<p><u>Tied Houses</u></p> <p>Upon considering the Property Sales Investigation follow-up report by Henderson Loggie the Committee</p>	<p>Proposed corporate register to be submitted to the Finance and Resources Committee on 28th January 2010 following each Director's report to their Service</p>	Head of Asset Management and Operations	19.01.10	21.09.10

<u>No.</u>	<u>Minute Reference</u>	<u>Committee Decision</u>	<u>Update</u>	<u>Lead Officer(s)</u>	<u>Report Due</u>	<u>Report Expected (if known)</u>
		resolved to instruct each Director to report to their Service Committee in the next cycle on how many tied houses were still in existence, where they were located and with a statement explaining the justification for being tied houses, and requested the Finance and Resources Committee to take a corporate overview by producing a corporate register for reporting back to the Audit and Risk Committee thereafter.	Committee. This report on the Corporate Register of Tied Houses will be reported to the Finance & Resources Committee and then to this committee.			
6.	Education, Culture & Sport 18.02.10 Article 5 resolution (iii)	<u>Walker Road Primary School Refurbishment</u> The Committee resolved to refer the item back to the Audit and Risk Committee and that a report be submitted to that Committee on the issue.	A report is on the agenda	Director for Education, Culture and Sport	08.06.10	08.06.10
7.	Audit and Risk 27.04.10 Article 11, resolution (iii)	<u>HE/SA/0931 - Homelessness - items 4.2.2(i) and (ii)</u> The Committee resolved to instruct officers to submit a report to the next meeting.	A report is on the agenda	Head of Housing and Community Safety	08.06.10	08.06.10

Aberdeen City Council

**Audit Progress Report
2009/10**

8 June 2010



HENDERSON LOGGIE
Chartered Accountants



Aberdeen City Council
Audit Progress Report 2009/10
8 June 2010

The following table records the stage of progress of each output proposed in the operational plan for 2009/10.

Audit area	Planned reporting date	Draft report date or work-in-progress	Report number	Final reporting date	Audit & Risk Committee	Reporting process complete	Comments
Planning							
Risk assessment, annual audit plan and fee proposal	18 February 2010	29 January 2010	2010-01	18 February 2010	2 March 2010	✓	
Governance							
Financial statements audit plan	27 May 2010	11 May 2010	2010-02	27 May 2010	8 June 2010	✓	Interim work complete and final report presented to Audit and Risk Committee 8 June 2010
Fraud returns	As required		N/A		N/A		



Aberdeen City Council
Audit Progress Report 2009/10
8 June 2010

Audit area	Planned reporting date	Draft report date or work-in-progress	Report number	Final reporting date	Audit & Risk Committee	Reporting process complete	Comments
National Fraud Initiative (NFI) Questionnaire	26 February 2010	N/A	N/A	26 February 2010	N/A	✓	The finalised questionnaire was submitted to Audit Scotland summarising the progress made by the Council in taking forward NFI arrangements. This will be used to inform the NFI national report due for publication in May 2010.
Follow-up review – School lets	30 June 2010	WIP			21 September 2010		Carried forward from 2008/09 plan. Information received from Council Officers 25 March 2010 on progress made to date and meeting held on 29 April 2010 to discuss. Draft report currently being prepared for discussion with Council Officers.
Performance							
Impact assessment – Overview of the local authority audits 2009	16 April 2010	N/A	N/A	20 April 2010	N/A	✓	Completed questionnaire submitted to Audit Scotland on 20 April 2010 giving feedback on Councils' initial reaction to the Audit Scotland report.



Aberdeen City Council
Audit Progress Report 2009/10
8 June 2010

Audit area	Planned reporting date	Draft report date or work-in-progress	Report number	Final reporting date	Audit & Risk Committee	Reporting process complete	Comments
Impact assessment – Asset Management	14 May 2010	N/A	N/A	14 May 2010	N/A	✓	Completed questionnaire submitted to Audit Scotland on 14 May 2010 giving feedback on Councils' progress against the recommendations in the Audit Scotland national report.
PRG overview report proforma return	30 September 2010				N/A		
Impact assessments – National Studies	TBA				N/A		
Finance							
Communication of audit matters to those charged with governance (ISA 260 Report)	30 September 2010				26 October 2010		Pre-year end planning meeting held with finance staff 19 March 2010.



Aberdeen City Council
Audit Progress Report 2009/10
8 June 2010

Audit area	Planned reporting date	Draft report date or work-in-progress	Report number	Final reporting date	Audit & Risk Committee	Reporting process complete	Comments
Audit opinion on financial statements	30 September 2010				26 October 2010		
Audit opinion on the Whole of Government Accounts (WGA)	30 September 2010				N/A		
Year-end management letter (if required)	30 October 2010				2 December 2010		
Auditor's reports on grant claims and returns	As required				N/A		Education Maintenance Allowance (EMA) draft claim was due to be submitted on 30 April 2010 and the audit certificate deadline is 31 July 2010. Draft claim has still to be received, however, this has been discussed with Council Officers and we have provisionally scheduled to carry out audit in early June to allow deadline to be met.



Aberdeen City Council
Audit Progress Report 2009/10
8 June 2010

Audit area	Planned reporting date	Draft report date or work-in-progress	Report number	Final reporting date	Audit & Risk Committee	Reporting process complete	Comments
HB/CTB subsidy management letter (if required)	TBA				TBA		<p>There has been further correspondence with the DWP on the 2007/08 Subsidy Claim and this is now with the Secretary of State for a final decision on recovery of overpaid subsidy.</p> <p>The latest correspondence from the DWP regarding the 2008/09 Subsidy Claim was received on 12/04/10. The Council replied to this on 07/05/10 and we will reply to the DWP once the final outstanding issue has been commented on by the HB/ CTB software supplier.</p>
Overall Conclusion							
Report to Members and Controller of Audit – Annual Report	30 October 2010				2 December 2010		



HENDERSON LOGGIE
Chartered Accountants

Aberdeen City Council

**Financial Statements Audit Plan
for 2009/10**

External Audit Report No: 2010-02

Draft Issued: 11 May 2010

Final Issued: 27 May 2010



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Restriction on Use

This report has been prepared in accordance with our responsibilities under International Statements of Auditing and Audit Scotland's Code of Audit Practice for the audit of the financial statements of Aberdeen City Council.

We take this opportunity to remind you that:

- This report has been prepared for the sole use of Aberdeen City Council its Audit and Risk Committee and will be shared with the Accounts Commission and Audit Scotland
- No responsibility is assumed by us to any other person who may choose to rely on it for his or her own purposes
- This report sets out the findings from the specific areas covered by our review as well as our review of internal audit. Our audit does not necessarily disclose every weakness and for this reason the matters referred to in this report may not be the only shortcomings which exist.



1. Executive Summary

Introduction and Background

1. The purpose of this plan is to provide Aberdeen City Council (the Council) and the Finance Team with a clear understanding of our approach to the audit of the financial statements for the year ended 31 March 2010 and to provide an update of our interim audit work to date.
2. This document outlines:
 - the accounts preparation expectations
 - our audit scope and approach
 - interim audit work to date
 - the issues for our year-end audit
3. The Working Papers Requested List (WPRL), which has already been issued to the Corporate Accounting Manager, is an important part of our approach and sets out our understanding regarding the documents the Council has agreed to prepare in order to facilitate our audit.
4. Information has been gathered through discussion with Council officers, including the Corporate Accounting Manager, the Internal Audit Manager and members of the Finance team, review of internal audit reports and files and the financial monitoring reports, and from the assessment of the key financial controls. We have considered planning guidance issued to us by Audit Scotland for 2009/10.
5. Our audit timetable and planned audit outputs were detailed in our **Risk Assessment, Annual Audit Plan and Fee Proposal for 2009/10** (Annual Plan), Report 2010-01 issued on 18 February 2010 and have been agreed with the Council's management and approved by the Audit and Risk Committee.

Overall Conclusion on Interim Work to Date

6. From the interim work carried out to date we are satisfied that we have assessed the level of assurance to be gained from the financial control environment at the Council for producing financial accounts for the year ended 31 March 2010. For the majority of the main financial systems we have assessed either full or substantial assurance. The exception is the Fixed Asset Register which is limited as the main controls are carried out after the year-end. This is subject to reviewing internal audit reports and files that are still in progress and completing the key control testing for the final few months of the year prior to the start of our year-end audit. Full details are included in Section 4.
7. We are pleased to report that for the main systems the majority of key controls appear to be in place. We have however identified some control weaknesses that may impact on our audit approach for the year-end:
 - while the payroll suspense account is reviewed and cleared throughout the year, it is currently only fully reconciled at the year end
 - reconciliations between the Assessor's records and the Council Tax system are currently only carried out at the year end
 - controls over Housing Rents dwellings reconciliations should be improved
8. Recommendations which should help strengthen internal controls are included in an Action Plan at Appendix I, together with further detail of our audit findings. The recommendations have been agreed with senior officers at the Council.



1. Executive Summary

Overall Conclusion on Interim Work to Date (cont'd)

9. We have identified some national and local issues that we have assessed as higher risk for the preparation and audit of the Council's financial statements. These are set out in Tables 5 and 6 in Section 5.
10. We have followed the Council's progress in implementing the actions agreed within our 2008/09 Financial Statements Audit Plan (FSAP) and our 2007/08 HB/ CTB Management Letter and included updates at Appendix II and III. We are pleased to note that all but two of the recommendations made have been fully implemented. We will follow up progress made with these final actions during our year-end audit.

Acknowledgements

11. We would like to take this opportunity to thank all the officers within the Council who assisted us in gathering information for this plan.



2. Accounts Preparation

Introduction

12. Our audit of the Council's financial statements, and the agreed audit fee are based on the timely receipt of disclosure compliant accounts and supporting working papers prepared to an acceptable professional standard; the availability of key officers responsible for the preparation of the financial papers; and access to further information or explanations necessary to support the financial statements and the significant areas of judgement applied in the preparation of the financial statements.

Format of the Accounts

13. The financial statements should be prepared in accordance with the "Code of Practice on Local Authority Accounting in the United Kingdom 2009 - A Statement of Recommended Practice" (SORP), which is issued by the CIPFA/LASAAC Joint Committee.
14. The SORP is reviewed and updated annually. The 2009 SORP which applies to the 2009/10 financial statements was issued in August 2009.
15. For 2009/10, the most significant change to the SORP is in respect of the accounting requirements for private finance initiative (PFI) and similar contracts. Accounting treatment for PFI and similar contracts is no longer based on FRS5 but on an interpretation of IFRIC 12 Service Concession Arrangements contained in the Government's Financial Reporting Manual.
16. There are also amendments in respect of accounting for non-domestic rates.

Responsibility for the Preparation of the Accounts

17. The financial statements are an essential part of accounting for the stewardship of resources made available to the Council and reporting its financial performance for the use of those resources. It is the responsibility of the Council, and the Head of Finance as the proper officer, to prepare the financial statements in accordance with statutory timescales and all relevant regulatory requirements. This means:
 - the Council has 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 and to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
 - the proper officer is responsible for the preparation of the financial statements and ensuring that they are in accordance with proper practices as set out in the SORP; ensuring that suitable accounting policies have been selected and applied consistently; judgements and estimates made are reasonable and prudent; proper accounting records have been maintained and that reasonable steps have been taken to prevent and detect fraud and other irregularities
18. A series of meetings with the Council's officers has been held to consider preparation of the financial statements and agree our requirements as set out in the WPRL. This document has been updated to take account of feedback from the Corporate Accounting Manager and his team to include the delegated responsible officers for each area.
19. Officers have confirmed that "year-end close down procedures" were issued to appropriate staff before 31 March 2010.



2. Accounts Preparation

Responsibility for the Preparation of the Accounts (cont'd)

20. The main contacts for our audit team in the course of the financial statements audit are the Corporate Accounting Manager and the Senior Accountant for operational issues. Any significant audit issues arising during the course of the year-end audit will also be notified to the Head of Finance, who has overall responsibility for the preparation and co-ordination of the financial statements.
21. We have made enquiries about the Council's processes for the preparation of the Annual Governance Statement and plan to review the process and draft statement during the year-end audit. Any significant weaknesses in controls identified during our year-end audit will be brought to the attention of management for inclusion in the statement.



3. Audit Scope and Approach

Scope of the Audit

22. Our responsibilities as independent auditors primarily derive from the Local Government (Scotland) Act 1973 and are summarised in Audit Scotland's Code of Audit Practice (the Code) approved by the Accounts Commission for Scotland, and guided by the auditing profession's auditing standards and ethical guidance. These responsibilities are to:
- audit the financial statements and place a certificate (independent auditors' report/opinion) on the statements stating that the audit has been conducted in accordance with part VII of the Act
 - satisfy ourselves that the financial statements have been prepared in accordance with all applicable statutory requirements
 - satisfy ourselves that proper accounting practices have been observed in the preparation of the financial statements
23. In forming our opinion for inclusion in our audit certificate we are required to report on the following:
- whether the financial statements give a true and fair view of the financial position of the Council as at 31 March 2010 and its income and expenditure for the year then ended
 - if the Foreword is not consistent with the financial statements
 - if the Council has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit
24. We review whether the Annual Governance Statement complies with the SORP and report if it does not comply or if it is misleading or inconsistent with other information we are aware of from our audit. We are not required to consider whether the statement covers all risks and controls, or form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.
25. In addition, we must consider the other information published with the financial statements and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Audit Approach

26. Our overall audit approach was set out in our Annual Plan. In summary, this approach is based on our annual integrated assessment of risks across our responsibilities detailed in the Code in relation to the finance (including our audit certificate on the financial statements), governance and performance aspects of the wider audit model. This approach includes:
- understanding the business of the Council and risk exposures which could impact on the financial statements
 - assessing the key internal controls for the main financial systems and considering how risk exposure in the systems could affect the financial statements



3. Audit Scope and Approach

Audit Approach (Cont'd)

26. Continued
- identifying major transaction streams, balances and areas of estimation, understanding how the Council will include these in the financial statements, and developing audit tests for these
 - assessing the risk of material misstatement in financial statements, in conjunction with our evaluation of inherent risk and control environment risk as part of our integrated risk assessment approach
 - determining the nature, timing and extent of our audit work programme to provide us with sufficient appropriate evidence as to whether the financial statements are free from material misstatement
27. Through this approach, we have also considered and documented the sources of assurance which will allow us to make best use of our resources and focus testing on higher risk areas during the audit of the financial statements. The main areas of assurance for the audit come from planned management action, internal audit coverage and reliance on systems of internal control. Management action being relied on for 2009/10 includes:
- comprehensive year-end close down procedures and timetable issued to relevant staff
 - clear responsibilities for the production of the accounts and supporting working papers
 - the delivery of unaudited accounts to agreed timescales with an appropriate working paper package and completed WPRL
 - identification of other bodies/entities and the appraisal of their materiality for inclusion in group accounts
 - completion of key elements of the internal audit programme for 2009/10
28. The audit of the financial statements is completed over three stages. The first stage was carried out between November 2009 and February 2010 as part of our “understanding the business” review, which fed into the integrated risk assessment approach. The specific output delivered as a result of this first stage was our Annual Plan.
29. The second stage was planned to be carried out over the period from March to June 2010. This includes our financial control evaluation work and audit testing of the key controls for the main financial systems we plan to rely on for our financial statements audit, and our review of the Council’s financial monitoring reports available prior to our year-end audit commencing.
30. At the time of this report, we have considered the results of our financial control evaluation work and the provision of internal audit services. The outcome of this evaluation is set out in Section 4. We will review the internal audit files and update our evaluation to take account of the results of their work. On other areas where internal audit has yet to formally report their findings and where we have still to review their files we will update our evaluation to take account of their findings. This further evaluation will be considered in the context of its impact on our financial statements audit.



3. Audit Scope and Approach

Audit Approach (Cont'd)

31. The third and final stage will be carried out during July to October 2010. We will focus our year-end audit on the significant risks and audit objectives for disclosure and significant areas of judgement included in the financial statements.

Materiality

32. Materiality is one of the fundamental accounting principles that should be complied with in preparing an authority's accounts. The SORP states that "Materiality is the final test of what information should be given in a particular set of financial statements...., materiality is a threshold quality ensuring that the information is of such significance as to justify its inclusion in the financial statements. An item of information is material to the financial statements if its misstatement or omission might reasonably be expected to influence assessments of the authority's stewardship, economic decisions, or comparisons with other entities, based on those financial statements. If there are two or more similar items the materiality of the items in aggregate, as well as of items individually, needs to be considered."
33. We are required to consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme.
34. Specifically, with regard to the financial statements, we assess the materiality of uncorrected errors and misstatements, both individually and collectively. We report all material and significant audit adjustments to the draft accounts and significant control weaknesses identified during our audit to those charged with governance before concluding our year-end audit.
35. We use a base calculation which is derived from the gross expenditure figure in the accounts as a materiality guide for our audit. This is calculated upon receipt of the draft accounts and advised to the Corporate Accounting Manager and his team. Both materiality and significance levels (5% of materiality) are used to list potential audit adjustments arising in the course of the audit and will be reported to those charged with governance. Items below our level of significance will be deemed trivial and may not be reported.

Classes of Transactions, Estimates, Other Account Balances and Disclosures

36. In addition to our calculation of materiality, we use our understanding of the Council to determine which transactions are material and significant to the financial statements.
37. Our audit approach requires that we identify significant classes of transactions, estimates, other account balances and disclosures. We will develop audit objectives relating to each of these items and test the controls over each item based on our assessment of the risk of significant misstatement.
38. We have assessed financial instruments, pension fund (FRS 17) liabilities and other pensions transactions, year-end property revaluations and capital accounting entries, manual accruals, prepayments, and provisions as higher risk and will carry out substantive testing on these accounts during our year-end audit. Transactions in these areas are only processed at the year-end and they are not covered by our financial control evaluation work.

3. Audit Scope and Approach

Fraud and Irregularity

39. It is the Council's responsibility to establish arrangements to prevent and detect fraud and other irregularity, including:
- developing, promoting and monitoring compliance with standing orders and financial regulations
 - implementing strategies to prevent and detect fraud and other irregularity
 - receiving and investigating allegations of breaches of proper standards
40. We are required to consider the arrangements made by management. We will do this in a number of ways:
- our risk-based audit approach will focus on specific areas of high risk and provide a reasonable expectation of detecting misstatements in the annual accounts resulting from fraud or irregularity
 - we will review the Technical Bulletins produced by Audit Scotland with regard to fraud reports in local authorities and ensure that the Council has adequate arrangements in place to prevent similar frauds occurring
 - we will examine the policies, strategies, standing orders and financial regulations issued by the Council to ensure that they deal adequately with fraud and corruption and provide a framework for exercising strong internal control.
41. We are also required to report any fraud above £5,000 to Audit Scotland and have agreed with the Council that we will be informed of any frauds if and when they are identified. We are not aware of any potential frauds occurring during 2009/10 other than those identified through the National Fraud Initiative.

Communication and Reporting

42. We will communicate regularly with officers in preparation for and during our audit of the financial statements. This communication should be two-way, and we encourage officers to have early discussions with us on any issues that may give rise to audit comment at a later date.
43. The Manager on site for the audit of the Financial Statements will be Karlyn Watt and the Audit Director will be Margaret Richardson. Cathie Wyllie is the partner responsible for signing the audit certificate. Issues arising during the audit should be brought to their attention. Contact details were supplied in our Annual Plan.
44. In accordance with International Standards on Auditing (ISA) 260, before issuing our audit certificate we will provide the Head of Finance, and those charged with governance (the Council's Audit & Risk Committee) with a report detailing any material and significant audit adjustments to the draft accounts and listing any unadjusted errors. Any significant control weaknesses and any significant matters which are identified during the course of the audit will also be included in this report, together with a copy of our proposed certificate.



3. Audit Scope and Approach

Communication and Reporting (Cont'd)

45. Due to the timing of the cycle of meetings of the Audit & Risk Committee and the target date of 30 September for completion of the audit, there is a potential difficulty in being able to discuss the ISA 260 report with Members in advance of completion of the audit. We suggest that we meet with the Convener of the Audit & Risk Committee to discuss the report and then circulate the document to all Members of the Committee as part of the agenda papers for the next meeting for their information.
46. We may also produce a separate year-end management letter should there be any technical accounting issues arising during the audit that we feel should be brought to the attention of the Head of Finance and the accountants involved in the year-end accounts process. Our observations and suggested recommendations would be where we believe improvements could be made to either the accounts preparation or audit processes.
47. Finally, at the conclusion of our year-end audit we prepare and submit our annual audit report, the Report to Members and the Controller of Audit, which is the formal report to the Council's Audit & Risk Committee and Full Council about all aspects of our audit for 2009/10.



4. Interim Audit Work

Introduction and Background

48. The Code identifies that 'it is the responsibility of the audited body to conduct its affairs and to put in place proper arrangements to ensure that its financial position is soundly based'. It is our responsibility as auditors to review and examine evidence that is relevant to these arrangements.
49. Our interim audit work as it relates to the financial statements audit included the following elements:
- a review of the provision of internal audit
 - a review of internal audit work to date
 - our financial control evaluation reviewing, testing and assessing the key controls in place for the main financial systems
 - ongoing review of the financial position and budget monitoring reports.

Review of Internal Audit Provision

50. Due to the limited resources available within the Council's Internal Audit function, an external firm was appointed to carry out specific projects within the 2009/10 Audit Plan. For 2010/11, the internal audit provision will be fully outsourced.
51. In accordance with ISA 610, we carried out a review of the Council's framework for the provision of internal audit services. As reported in our Annual Plan, we confirmed that we can continue to place reliance on the work of internal audit for the current year.

Review of Internal Audit Files

52. In our Annual Plan we identified areas in internal audit's work programme for 2009/10 where we would expect to place reliance on their work for the audit of the financial statements. We identified the following files that we would want to feed into our financial control evaluation review:
- Budget management process
 - Financial reporting readiness
 - Bank reconciliations
 - General ledger feeder systems
 - Other general ledger account reconciliations
 - Treasury management
 - Accounts receivable and collections
 - Housing capital expenditure and repairs budgets
 - IT Asset Management
 - IT General Controls
 - CRM/ Parking Fines

4. Interim Audit Work

Review of Internal Audit Files (Cont'd)

53. Internal audit have concluded on their work to date as summarised in Table 1. We have reviewed the working paper files relating to these reviews and concluded that we can rely on their work.

Table 1: Internal Audit Conclusions

Topic	Conclusion
Budget management process	Satisfactory
General ledger feeder systems	Satisfactory
CRM/ Parking Fines	Generally adequate
Treasury Management	Generally satisfactory
Accounts Receivable	Generally satisfactory

54. We have reviewed the weaknesses identified by Internal Audit to date and have concluded that they are unlikely to have a material impact on the financial statements. Where appropriate we have designed specific substantive testing to address identified weaknesses.
55. The other internal audit reviews are in progress and are expected to be reported prior to the start of our year-end work. The reports and working paper files will be reviewed as soon as they are available and we will consider whether any of the findings are likely to have a material impact on the financial statements.
56. The Internal Audit Manager is responsible for preparing an annual assurance statement. Our review of this work will inform our review of the Annual Governance Statement published with the annual accounts.
57. It should be noted that we can rely fully on the work of internal audit without necessarily gaining full assurance on the controls in place. For example internal audit may not have tested the key controls within their review or may conclude that from controls tested the audit results do not provide full assurance that the controls are operating effectively. Where either scenario is reported we will consider the implications for our testing for the year-end audit.
58. We will report the extent of our actual reliance on internal audit's work and the level of assurance gained in our annual report.

Financial Control Evaluation

59. We have carried out a high level review of the key controls for the Council's main financial systems and carried out walkthrough tests to confirm that our understanding of these systems and the control environment is accurate. We have tested key controls up to the point of our review for all systems not tested by internal audit. The systems reviewed were the main Financial Ledger (including budget and actual figures), Payroll, Creditors ledger, Cheque Control, Fixed Assets Register, Non Domestic Rates, Council Tax, Housing Rents and Council Tax and Housing Benefit.
60. We used CIPFA's Hazard Identifiers to aid our documentation of the system and existing controls. Where we identified control weaknesses we have highlighted them on the control sheets. The responsible officers for each area have confirmed the factual accuracy of the documented controls.



4. Interim Audit Work

Financial Control Evaluation (cont'd)

61. Further testing will be carried out at the start of our year-end audit, to confirm that the key controls have continued to operate in the period between our audit visit and the end of the financial year.
62. The evaluation of the Fixed Assets and Capital Accounting was restricted as most of the work in this area is carried out as part of year-end procedures. We therefore plan to carry out detailed testing during our year-end audit.
63. We are pleased to report that for all of the main financial systems reviewed the majority of the expected key controls appear to be in place. The main issues identified during our testing are noted below. Other less significant findings have been discussed with the responsible officer for each area. Recommendations which should help to strengthen internal control are included in the Action Plan at Appendix I, together with further details of our audit findings.
- Payroll - While the payroll suspense account is reviewed and cleared throughout the year, it is currently only fully reconciled at the year-end.
 - Creditors – the control over ensuring evidence of receipt of goods before payment of invoices should be strengthened.
 - Council Tax - Reconciliations between the Assessor's records and the Council Tax system are currently only carried out at the year end. An electronic interface between the two systems should be developed to enable reconciliations to be automatically performed whenever amendments to the Council Tax system are made. We raised this issue in our 2008/09 Action Plan (see Appendix II), however officers have advised that resource issues have prevented this from being implemented. We understand that dialogue has started with the Assessor for implementation in 2010/11.
 - Housing and Council Tax Benefit - Controls over refund payments should be strengthened to ensure that all payments in excess of £1,000 are checked.
 - Non-Domestic Rates - Annual billing for Non-Domestic Rates should be fully reconciled and documented at the time to ensure that the correct number of bills are sent out.
 - Non-Domestic Rates - System information is currently being gathered manually on spreadsheets or handwritten notes. Checking data presented in this manner is time consuming and difficult, and staff resources mean that some records are no longer being maintained. The reporting capabilities of the system need to be reviewed and consideration should be given to reporting tools to allow system information to be extracted relatively quickly.
 - Housing Rents - Controls over rent refunds should be strengthened to ensure that the total of refund approved is reconciled to the total processed in the rent system and the total amount paid through the main accounting system.
 - Housing Rents - All rent account adjustments and transfers input into the rent system should be reviewed by an independent person.
 - Housing Rents - Controls over changes to the rent dwellings masterfile should be improved by requiring two staff to authorise all proposed amendments and independently reconciling all rent dwelling movements to supporting documentation.



4. Interim Audit Work

Financial Control Evaluation (cont'd)

- 64. From our testing of the HB/ CTB system, we noted that the restructured training team has developed and implemented a new training programme which is identifying and addressing training needs to ensure new and existing staff have both up to date knowledge and progressive training in the different aspects of HB/ CTB. This is highlighted as a good practice point.
- 65. We have followed up the recommendations made in our **2008/09 Financial Statements Audit Plan**, Report 2009/03 issued on 26 May 2009 and included an update at Appendix II. In relation to Housing and Council Tax Benefit, we have also followed up the recommendations made in our **2007/08 Housing and Council Tax Benefit Subsidy Management Letter**, Report 2009/05 issued on 30 June 2009 and included an update at Appendix III. We are pleased to note that all but two of the recommendations made have been fully implemented. Revised target dates for implementation have been provided for the recommendation relating still to be implemented. We will follow-up progress made with these during our year-end audit.
- 66. We have identified the key controls upon which we plan to place reliance for our financial statements audit. Where the expected key controls exist and are operating effectively we plan to take assurance from this and restrict our year-end testing.
- 67. The results from our evaluation have been considered in terms of the impact on the financial statements audit and on our audit opinion. We grade the level of assurance we can take using the following basis:

Table 2: Assurance grading

Assurance Opinion	Assurance Description
Full Assurance	There is a sound system of control designed to achieve the system objectives (this may be subject to completing some control testing in the period up to the year-end).
Substantial Assurance	While there is a basically sound system there are some weaknesses that put some system objectives at risk
Limited Assurance	Weaknesses in the system of controls are such as to put the system objectives at risk or controls only operate at the year-end
No Assurance	Control is generally weak leaving the system open to significant error or abuse

- 68. Where full or substantial assurance can be taken that the controls are operating effectively throughout the year within each of the main financial systems, we limit our testing at the financial statements audit phase. Where limited or no assurance can be taken on the main financial systems then we expand our detailed testing during the year-end audit.
- 69. The following table details the level of assurance we expect to take from our overall financial control evaluation of the main financial systems. A small amount of testing has still to be completed, to confirm that the key controls continued to operate for the full year. This work will be carried out at the start of our year-end audit.

4. Interim Audit Work

Financial Control Evaluation (cont'd)

Table 3: Assumed Level of Assurance

Main System	Level of Assurance
Main Financial Ledger	Substantial ³
Budgetary Control	Full ¹
Payroll	Substantial ²
Debtors and Income	Substantial ²
Creditors and procurement	Substantial ²
Cash & Bank	Substantial ³
Treasury Management	Substantial ²
Council Tax	Substantial ²
Non-Domestic Rates	Substantial ²
Housing Rents	Substantial ²
Council Tax and Housing Benefit	Substantial ²
Fixed Asset Register	Limited (see para 62)

¹ No issues identified during our testing of the period April 2009 to January 2010. The level of assurance will be re-considered following completion of control testing for February and March 2010.

² Some weaknesses identified. Recommendations included in Action Plans at Appendix I and II or within Internal Audit reports.

³ The work of Internal Audit has still to be reported. The level of assurance will be re-considered following completion and review of Internal Audit's work.

Reliance on the Council's Controls

70. Management are expected to have a sufficient framework of controls in place such that we are able to rely on the following key controls for our year-end audit; as follows:

Table 4: Reliance on Council's Controls

Main System	Expected Council's Controls
Main Financial Ledger	The final trial balance squares and reconciles to the final ledger prints. An audit trail is provided that tracks the final ledger balances to the key figures in the accounts. Back up is maintained for all significant journal entries and all suspense accounts have been reviewed and cleared at the year-end. All key control accounts (including VAT and Payroll Control accounts) are reviewed on a regular basis. Feeder system interfaces and batch processing are operating properly to ensure complete and accurate update of the ledger on a timely basis.
Budgetary Control	All significant variances and virements from the final approved budgets for the year are fully explained and have been reported to the Council regularly throughout the year. Reconciliation is provided detailing all significant movements and virements from the original to the final approved budget.



4. Interim Audit Work

Main System	Expected Council's Controls
Payroll and Pensions	All changes to the payroll standing data including new starts and leavers during the year have been properly authorised. All payroll payments to staff have been made to bona fide employees of the Council and all deductions have been properly accounted for. Payroll exception reports are regularly monitored. All key payroll and pension accounts codes within the main ledger are regularly monitored and all payroll control and suspense accounts are regularly monitored.
Debtors and Income	All goods and services provided by the Council during the year have been properly authorised and invoiced or accrued by the year-end. All other income due to the Council has been properly accounted for. Cash received has been promptly banked intact and accounted for in the Debtors Control Account or as other income. Controls to ensure both the Debtors and financial ledgers are fully and completely updated on a timely basis. The Debtors Control Account is reconciled regularly with the outstanding Debtor balances. Controls are in place to ensure regular debt monitoring and recovery action. Authorised listing of bad debts written off for the year and full details of provisions made at the year-end.
Creditors and procurement	All goods ordered are properly authorised by the appropriate budget holder, matched with goods delivered and agreed to suppliers invoices prior to payments being authorised. The Council's procurement policies are followed and tendering arrangements in the Council's financial regulations are followed for all significant contracts. All payments in excess of £25,000 are independently checked. Exception reports are periodically reviewed to identify potential duplicate payments. Controls to ensure both the Creditors and financial ledgers are fully and completely updated on a timely basis to ensure all liabilities are recognised. The Creditors Control Account balance is regularly reconciled throughout the year to the outstanding creditor balances.
Treasury Management	All loans funds transactions, including advances, repayments and interest were properly authorised and are supported by the appropriate documentation held by the Treasury Management Team.
Cash & Bank	All of the Council's main bank and cash imprest accounts have been reconciled regularly throughout the year and reviewed by appropriate staff. The final bank reconciliation for the main account has been reconciled to the balance on the bank statements at the year-end and all significant outstanding transactions have been checked to the after date bank statements. All income received is processed and banked timeously in full. The cashing system and the financial and other ledgers are correctly updated. All cheques and BACs runs are properly authorised and accounted for in the correct period.
Non Domestic Rates	All amendments to the property masterfile are supported by Grampian Joint Valuation Board documents. Updated parameters are independently checked to ensure these are correct. Checks are in place over the accuracy and completeness of billing. Refunds are authorised appropriately. Exemptions and reliefs are supported with adequate documentation. Cash received in the cash receipting system is reconciled to cash per the non-domestic rates system. The non-domestic rates system balances are reconciled to the main accounting system balances at year end.



4. Interim Audit Work

Main System	Expected Council's Controls
Council Tax	All amendments to the property masterfile are supported by Grampian Joint Valuation Board documents. Updated parameters are independently checked to ensure these are correct. Checks are in place over the accuracy and completeness of billing. Refunds are authorised appropriately. Exemptions are supported with adequate documentation. Cash received in the cash receipting system is reconciled to cash per the council tax system. The council tax system balances are reconciled to the main accounting system balances at year end.
Housing Rents	All amendments to the property masterfile are independently checked to supporting documentation. Updated rent charges are independently checked to ensure these are correct. Void properties are monitored. Cash received in the cash receipting system is reconciled to cash per the housing rents system. Refunds are authorised and supported with adequate documentation. The housing rents system balances are reconciled to the main accounting system balances at year end.
System Access	Appropriate system access controls are in place for all of the above systems.

Letters of Assurance and Confirmation

71. In accordance with Audit Scotland's guidance we have written to the Treasurer and the External Auditor of Grampian Valuation Joint Board to seek assurances in relation to the valuation services provided by the Board to the Council. To date we have still to receive responses from both; however, we will seek assurance before concluding our review.

Financial Position

General Fund

72. The original 2009/10 budget of £438.736 million included savings totalling £26.625 million. Recent reporting to the Finance and Resources Committee, based on ledger figures at 31 March 2010 has indicated that the Council is projecting an increase in the General Fund of £9.482 million in comparison with a budgeted breakeven position. This is being achieved by one-off savings of approximately £6.3 million through reduced capital financing costs as a result of a reduced capital programme and benefits achieved from rescheduling debt and a £6.099 million saving as a result of a review of past VAT claims. The operational budget cost pressures are currently predicted to exceed the budget by £1.144 million.
73. In taking into account the above projected underspend for the current year, the latest projected uncommitted General Fund balance at 31 March 2010 is £14.149 million, which comprises:



4. Interim Audit Work

Financial Position (cont'd)

	£m
Uncommitted balance at 1 April 2009	8.784
Movement on General Fund balance (see above)	9.482
Revised Uncommitted General Fund Working Balance	18.266
Earmarking of Road Maintenance funding from Transport Scotland	0.117
Release of Equal Pay provisions through Consent to Borrow arrangements already in place	(3.600)
Recommended earmarking of General Fund Balance to Support the Staff Reduction Exercise	7.600
Projected Uncommitted General Fund Work Balance at 31 March 2010	14.149

Housing Revenue Account

74. The Housing Revenue Account projected out-turn position at 28 February 2010 reports a balanced budget, with a potential increase of the capital from current revenue due to the overall favourable position principally the result of reduced capital financing costs.

Housing Capital Programme

75. As at 28 February 2010, the Council reported a projected out-turn position of £52.547 million on the Housing Capital Programme, compared to the approved budget for 2009/10 of £51.747 million. This additional expenditure will be funded from additional Capital from Current Revenue. This is as a result of carry forward of various projects from 2008/09 principally the structural repairs of the multi storey flats.

Non-Housing Capital Programme

76. As at 31 March 2010, the Council reported a projected out-turn position of £65.446 million on the Non-Housing Capital Programme compared to the revised budget of £64.940 million. To ensure that the overall programme remains within the funded level, a further £0.506 million of slippage will require to be identified. Based on information from previous years and the low level of spend to date, the Council anticipate that this level of slippage is achievable, once all end of year transactions are processed.
77. We have considered the impact of the above projected variances against the budgets in determining the higher risk areas that may impact on our financial statements audit. We will review the final position during our year-end audit.
78. We will review the overall movement in the Council's reserves and the final closing balance. We will also monitor the level of uncommitted balances in respect of the Council's policy of maintaining a level of 2.5% to 3% of the revenue budget.



5. Issues for the Year-End Audit

Specific Risk Areas

- 79. Our Annual Plan highlighted a number of business and audit risk areas some of which may impact upon the financial statements and the audit opinion. For the purposes of the specific year-end planning we have identified some national and local issues that we have assessed as higher risk of impacting on the preparation and audit of the Council's financial statements. These are set out in tables 5 and 6 below.
- 80. At the start of our year-end audit we will meet with the Corporate Accounting Manager to discuss these issues and any further issues that have arisen during the accounts preparation process, to update our planning.

Table 5: National Issues

Issue	Detail
Accounting for PFI Contracts	Accounting treatment for PFI and similar contracts is no longer based on FRS 5 but on an interpretation of IFRIC 12 Service Concession Arrangements contained in the Government's Financial Reporting Manual. Appropriate disclosures to be made in the financial statements.
FRS17 Pensions Funds Liabilities	The impact of changes to the pension funds' regulations needs to be considered. Ensure disclosures are as required for 2009/10.
Equal Pay and Single Status	Provision and disclosure in the accounts relating to equal pay claims and implementation of the new terms and conditions under single status.
Non Domestic Rates (NDR)	NDR are collected by the Council as an agent on behalf of central government and should be accounted for accordingly.
Significant Trading Operations	Requirement to break even over a rolling three year period.
Whole of Government Accounts	The deadline for completing the audited return has been brought forward to 30 September 2010. Arrangements need to be put in place to ensure that this deadline is achieved.
International Financial Reporting Standards (IFRS)	The Council will need to restate 2009/10 comparative information onto an IFRS basis, and disclose a restated 1 April 2009 IFRS-based balance sheet. From initial discussions, the Council are making progress in preparing for full IFRS implementation.

- 81. The key message from our 2008/09 management letter was that there was a requirement for greater management of the year-end accounts preparation process; there needed to be a closer scrutiny by management of the draft accounts and associated working papers; and that a clear structure needed to be put in place to ensure that staff have sufficient time and knowledge to plan in advance of the year-end work, prepare the accounts in compliance with the SORP and ensure that there is evidence of a timely review prior to the audit process.

5. Issues for the Year-End Audit

Specific Risk Areas (cont'd)

Table 6: Local Issues

Issue	Detail
Actions from 2008/09 Year-end Management Letter	Actions outstanding from our 2007/08 year-end management letter along with those raised in our 2008/09 letter need to be addressed.
AECC Funding	Changes to the loans and funding arrangements for the AECC, approved by Council in February 2010, need to be fully disclosed in the financial statements.
3Rs Project	Changes to the agreement made during the year, including the restructuring and changes to the Facilities Management provider, need to be fully disclosed in the financial statements.
Capital Funds and other funds and reserves	Must comply with the statutory regulations relating to the use of reserves.
Statement of Total Recognised Gains and Losses (STRGL)	Any 'other' gains / losses to be fully explained and reconciled
Accounts to meet the SORP disclosure requirements in all material aspects.	Early use of CIPFA's Disclosure checklist to ensure compliance.



Appendix I – Action Plan

1. Payroll		
<p>Control Objective: Payroll data is accurately entered into e-financials Key Control: Payroll suspense account is reviewed and cleared monthly</p>		
Observation and Risk	Recommendation	Management Response
<p>While there was evidence that the payroll suspense account was reviewed throughout the year, formal reconciliations are not being carried out on a monthly basis. The only formal reconciliation, independently signed off by the Payroll Manager, is carried out at the year-end. There is a risk that suspense items are not cleared timeously.</p>	<p>R1 A reconciliation of the Payroll suspense account should be carried out on a monthly basis, and independently signed off by the Payroll Manager. This should be done in a similar format to that prepared for the year-end.</p>	<p>A procedure will be put in place to ensure that the Payroll suspense account is balanced on a monthly basis, at the end of each month, beginning from June 30th. As part of the procedure, once balanced each month, there will be a sign off for the member of staff undertaking the task and another sign-off for the Payroll Manager on the same sheet.</p> <p>To be actioned by: D Cheyne Payroll Manager No later than: 30 June 2010</p> <p>Grade B</p>



Appendix I – Action Plan

<p>2. Creditors</p> <p>Control Objective: Invoices are paid correctly Key Control: An invoice requires a delivery note, signed to say that all items have been received and are correct, prior to payment.</p>		
Observation and Risk	Recommendation	Management Response
<p>From a sample of 24 paid invoices selected, we noted 10 invoices had inadequate evidence of the receipt of goods. This included absence of delivery note and absence of annotation of delivery note. There is therefore a risk that invoices are paid incorrectly for goods not received.</p>	<p>R2 Invoices should not be passed for payment without appropriate evidence of the receipt of goods.</p>	<p>The introduction during June/July 2010 of a Centralised Finance Processing Team utilising Electronic Document Management Workflow system (Infosmart) will ensure that invoices cannot be paid without goods having been received.</p> <p>Pecos (procurement system for purchase of catalogue and non catalogue supplies and services) and Infosmart have been implemented in EC&S establishments as a pilot project since November 2009. The process within Infosmart has confirmed that it is no longer possible to process payments for supplies and services until the purchases have been receipted</p> <p>This has formed part of the process maps developed and introduced within Infosmart as part of the three way invoice matching process –order / goods receipt / invoice all tying up. This will be in place by the 1st week in August when all services within the Council will be linked to PECOS for ordering and Infosmart for processing of invoices.</p>



Appendix I – Action Plan

2. Creditors (Cont'd)			
Observation and Risk	R2	Recommendation (Continued)	Management Response
			In relation to the feeder systems which will not be linked to Infosmart, the Financial Services Manager will issue an instruction to operatives reminding them of the requirement to “goods receipt” orders. To be actioned by: Garry Stevens Financial Services Manager No later than: 1 August 2010 Grade C



Appendix I – Action Plan

<p>3. Housing Rents</p> <p>Control Objective: Rent refunds are valid and appropriately supported with documentation Key Control: Refunds are authorised and supported with adequate documentation</p>		
Observation and Risk	Recommendation	Management Response
<p>Cash refunds are recorded in a manual cash refunds book, along with the signature of the cashier who made the refund. These refunds are not spot checked to determine whether the refunds are appropriate and are not reconciled to the Rent system to ensure that the correct amount has been included in the individual rent accounts. As a result, cash refunds could be inappropriately given and the incorrect refund amount could be put into the Rent system.</p> <p>Refunds made by cheque and BACS are approved on refund forms. The total of each batch approved is not reconciled to the amount processed into the Rent system or to the amount paid out through the main accounting system. There is a risk that incorrect refund amounts may be paid out or processed onto the rent system.</p>	<p>R3 All authorised refunds should be reconciled to the refunds processed through the rent system and the refund payments made through the main accounting system.</p>	<p>Monthly reconciliations will be carried out between the financial ledger and the rent accounting system.</p> <p>Cash refunds will only be given in emergency situations.</p> <p>To be actioned by: Ken Taylor Corporate Debt/Income Manager</p> <p>No later than: 15 June 2010</p> <p>Grade B</p>



Appendix I – Action Plan

<p>3. Housing Rents (cont'd)</p>		
<p>Control Objective: Rent adjustments are accurately allocated to individual rent accounts Key Control: Adjustments are authorised and supported with adequate documentation</p>		
Observation and Risk	Recommendation	Management Response
<p>Both the Income Management Officer and the Assistant Income Management Officer process requests for transfers and adjustments to rent accounts. Any adjustments made by the Income Management Officer are not independently reviewed. There is a risk that these adjustments may be incorrect unless there is an independent review of these.</p>	<p>R4 All transfers and adjustments to rent accounts processed by one staff member should be authorised by an independent staff member.</p>	<p>Procedures will be updated so that a second authorisation is mandatory.</p> <p>To be actioned by: Ken Taylor Corporate Debt/Income Manager</p> <p>No later than: 15 June 2010</p> <p>Grade B</p>



Appendix I – Action Plan

<p>3. Housing Rents (cont'd)</p>		
<p>Control Objective: All applicable Council dwellings have rent charged to them Key Control: All amendments to the property masterfile are independently checked to supporting documentation.</p>		
Observation and Risk	Recommendation	Management Response
<p>If a property is removed from the rent masterfile, for example, as a result of a sale, demolition or conversion, this only requires an e-mail from one staff member in Estates or Legal to the Rent System team. There is a risk that property could be removed from the masterfile in error.</p> <p>There is no reconciliation of movements in dwellings to supporting documentation by someone independent from those in Estates, Legal and the Rent System team. Without this reconciliation there is no check to ensure that no unauthorised changes to the Rent System masterfile are made.</p>	<p>R5 Controls over adjustments to the rent masterfile should be strengthened by ensuring that all requested adjustments are proposed by one staff member and approved by a more senior staff member. A reconciliation of movements in dwelling stock to supporting documentation should also be undertaken by someone independent of Estates, Legal and the Rent System team.</p>	<p>Following clarification of the audit findings and recommendations the Service is considering how it can achieve the necessary level of control in the process of making changes to the Rent System.</p> <p>To be actioned by: Helen Sherrit Senior Accountant</p> <p>No later than: 30 June 2010</p> <p>Grade B</p>



Appendix I – Action Plan

<p>4. Housing and Council Tax Benefit</p>		
<p>Control Objective: To ensure that the Housing and Council Tax Benefit system is accurate Key Control: There are adequate reviews of refunds before making payment</p>		
<p>Observation and Risk</p>	<p>Recommendation</p>	<p>Management Response</p>
<p>According to Council procedures, checks of payments should be made for:</p> <ul style="list-style-type: none"> • Payments over £1,000 • 5% of payments in each payment run <p>From our testing, we found no documentary evidence to show that all payments over £1,000 have been checked. There is a risk that large payments could be processed incorrectly.</p>	<p>R6 Schedules should be annotated to show that checks have been performed on all payments in excess of £1,000.</p> <p>Auditors comment: Action was taken to instruct all staff on this point at the time of the audit.</p>	<p>Procedures have been reinforced to staff.</p> <p>To be actioned by: Helen Moir Senior Processing Officer</p> <p>No later than: Now in operation</p>
<p>Grade</p>		<p>B</p>



Appendix I – Action Plan

5. Non-Domestic Rates		
Control Objective: To ensure that the Non-Domestic Rates (NDR) system is accurate Key Control: There are controls to ensure all NDR payers receive a bill and a sample of bills are checked for correct calculation before sending		
Observation and Risk	Recommendation	Management Response
Annual billing was not fully reconciled. There is therefore a risk that the correct number of bills may not be sent out.	R7 Annual billing should be fully reconciled and documented at the time. This should also be signed off by an independent person.	Procedures will be updated to include sign off by independent person. To be actioned by: Ken Taylor Corporate Debt/Income Manager No later than: 11 June 2010 Grade B
System information is being gathered manually on spreadsheets or handwritten notes. Staff resources to maintain records this way are no longer available. Additionally, checking data presented in this manner is time consuming and difficult.	R8 Reporting training on the Northgate system should be carried out to identify useful reports which staff are currently unaware of. Consideration should also be given to accessing a reporting tool to allow staff to extract such data as may be required to verify accuracy of the system and amendments made during the year.	The supplier will be contacted to determine whether the necessary reports can be provided. To be actioned by: Ken Taylor Corporate Debt/Income Manager No later than: 30 June 2010 Grade B



Appendix I – Action Plan

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

Ranking	Definition
A	Fundamental issues which require the urgent consideration of senior management.
B	Significant matters which require the attention of line management.
C	Less significant matters, which do not require urgent attention but which should be followed up within a reasonable timescale.



Appendix II – Follow-up 2008/09 Action Plan

1. Creditors	Recommendation	Management Response	Update at May 2010
<p>R1 Exception reports identifying potential duplicate payments should be reviewed on a regular basis, and actions followed up timeously.</p>	<p>Agreed. A review of potential duplicate payments for the past 4 years to end of March 2009 is currently being undertaken, and some potential duplicates have been identified, and are now being investigated, and if appropriate recovered. The numbers identified for the period in question, are below the average identified within other Councils of a similar size where this type of work has been undertaken</p> <p>The Creditors Team now have software available to continue monthly investigations and identify potential duplicate payments. This is timetabled into the monthly list of actions to be undertaken, and will be reviewed at future operational team monthly meetings.</p> <p>It is hoped that eventually prior to every daily payment run, investigations will take place to identify possible duplicate payments prior to the payment being processed and issued via Cheque or BACS, thus eliminating the additional work required to recover the payments from the supplier.</p> <p>To be actioned by: Financial Services Manager No later than: Now in operation.</p>	<p>Grade B</p>	<p>A review was carried out by an external consultant, covering the period April 2003 to March 2009, and identified £75,796 (19 items) to be recovered. This represents a level of processing accuracy within Accounts Payable of 99.99%.</p> <p>A further review is planned for later in 2010.</p> <p style="text-align: right;">Fully Implemented</p>



Appendix II – Follow-up 2008/09 Action Plan

2. Council Tax			Update at May 2010
Recommendation	Management Response		
R2 The completion of an end date and/ or review date should be mandatory in the case of time limited exemptions.	For time limited exemptions that do not automatically cease, procedures will be updated to ensure an end date or review date is input. To be actioned by: Wayne Connell No later than: 22 May 2009		Procedures updated
	Grade	B	Fully Implemented
R3 All adjustments should be adequately explained	Any future adjustments in this category will have a full audit trail To be actioned by: Ken Taylor No later than: 15 May 2009		ACC overpayments have been and will be refunded so there will be no consolidation in future.
	Grade	B	Fully Implemented



Appendix II – Follow-up 2008/09 Action Plan

2. Council Tax (Cont'd)		Management Response	Update at May 2010
R4 An electronic interface between the Assessor's system and the Council Tax system should be developed and implemented.	Recommendation	<p>It has been agreed with the Assessor to commence this work in June/July 2009.</p> <p>To be actioned by: Ken Taylor No later than: 17 July 2009</p>	<p>Resource issues prevented this happening in time but dialogue has started with the Assessor for implementation in 2010/11.</p> <p>The Assessor's IT representative has retired so the process has been delayed.</p> <p>Not yet implemented – Revised Completion Date – 31 Dec 2010</p>
		<p>Grade B</p>	
R5 Regular reconciliations and clearance of suspense accounts should be programmed and implemented.		<p>A full resource compliment means that this task will now be carried out at least weekly.</p> <p>To be actioned by: Ken Taylor No later than: 29 May 2009</p>	<p>Resources diverted at times due to other priorities but action plan to clear by 31/03/10</p> <p>Partially Implemented – balance of £39k held in suspense to be investigated during 2010/11.</p>
		<p>Grade B</p>	



Appendix II – Follow-up 2008/09 Action Plan

3. Housing Benefit/ Council Tax Benefit		
Recommendation	Management Response	Update at May 2010
<p>R6 Staff should ensure that all quality checks are undertaken on a regular basis and must not be put off more than once unless due to absence.</p>	<p>A planned restructure will ensure that quality checks are undertaken on a regular basis but in the meantime controls will be introduced to ensure checks are not put off more than once.</p> <p>To be actioned by: Wayne Connell No later than: 29 May 2009</p>	<p>Controls introduced. Restructure approved by Committee 10/12/09 and the Job Matching process will commence shortly.</p>



Appendix III – Follow-up 2007/08 HB/ CTB Management Letter

Recommendation	Management Response	Update May 2010
<p>R1 Enhance the level of analytical review undertaken and ensure that all analytical review comments are updated each year.</p>	<p>Agreed. Please provide copy of Audit Scotland Spreadsheet.</p> <p>To be actioned by: Ian Sutherland</p> <p>No later than: 30/06/09</p>	<p>Audit Scotland Year on Year analysis spreadsheet has now been received and will be used for the 09/10 audit.</p> <p>Fully Implemented</p>
<p>R2 Review the system for reclassifying cases which are incorrectly included within the deregulated registered social landlord cell. This should include obtaining formal confirmation from landlords that their accommodation meets the Old Scheme requirements where applicable and having an independent review of the calculated deregulated cell adjustments for accuracy and completeness.</p>	<p>The onus is on the LA to make a judgement as to classification based on all the facts including relevant confirmation from landlords. Any cell adjustment is already agreed with senior Processing staff and a review of the original classification undertaken. A further independent review of the cell adjustment is not deemed necessary.</p> <p>To be actioned by: Ian Sutherland</p> <p>No later than: 31/05/09</p>	<p>Before being classed as a de-regulated registered social landlord the RSL register and Scottish Charity Registers are checked to ensure there is an entry for the landlord.</p> <p>The RSL/Rent Officer issue was raised by DWP in July 2008 pertaining to the 2007/08 audit and all affected cases were re-classified for 2007/08 and 2008/09. Subsidy adjustments were made to the auditor's satisfaction. Further guidance was issued to staff relating to Rent Referrals.</p> <p>Fully Implemented</p>



Appendix III – Follow-up 2007/08 HB/ CTB Management Letter

Recommendation	Management Response	Update May 2010
<p>R3 Reiterate to staff the need for accuracy. Where specific input errors were noted, such as with Child Tax Credits and Working Tax credits, provide extra training for staff. Checks should also be undertaken to ensure staff are correctly processing any new tax credit claims.</p>	<p>Agreed and already completed. Further guidance relating to Tax Credits claims in particular has already been issued to staff. Checking is ongoing.</p> <p>To be actioned by: Helen Moir</p> <p>No later than: 31/05/09</p>	<p>Guidance was given to staff on these areas at their team briefings. Robohelp was updated and old guidance deleted. Tax Credit information on Robohelp was last updated in November 2009. In addition reports were run in February 2009 and February 2010 listing all cases where WTC and CTC were in payment. Checks were carried out to ensure that these cases were updated to reflect the April '09 and April '10 figures.</p> <p>Fully Implemented</p>
<p>R4 A sample of 2008/09 new claims and change of circumstances PI calculations should be recalculated to provide assurance that the published PI is materially correct. We suggest that a sample of 40 would be an appropriate initial sample, with further testing being undertaken if considered necessary.</p> <p>For any errors noted in the sample above these should be reviewed to determine the reasons for the errors and identify ways that these errors can be avoided. Staff should then be trained so they avoid creating such errors.</p>	<p>We are unable to check 2008/09 PI's as these have already been submitted. However, User Performance Statistics prints are given to Processing Team Leaders on a daily basis for checking New Claims and Change of Circumstances PI's.</p> <p>To be actioned by: Helen Moir</p> <p>No later than: 30/06/09</p>	<p>Team Leaders receive and check User Performance Statistical prints on a daily basis. Due to volumes these prints are not kept however, examples can be provided if required.</p> <p>Fully Implemented</p>



Appendix IV - Acronyms

AECC	Aberdeen Exhibition and Conference Centre			Private Finance Initiative
ACC	Aberdeen City Council		PFI	Registered Social Landlord
BACS	Bankers' Automated Clearing System		RSL	Statement of Recommended Practice
CIPFA	Chartered Institute of Public Finance and Accountancy		SORP	Statement of Total Recognised Gains and Losses
CRM	Customer Relations Management		STRGL	Value Added Tax
DWP	Department of Work and Pensions		VAT	Working Papers Requested List
FRS	Financial Reporting Standards		WPRL	
FSAP	Financial Statements Audit Plan			
HB/CTB	Housing Benefit/ Council Tax Benefit			
HR	Human Resources			
IFRIC	International Financial Reporting Interpretations Committee			
IFRS	International Financial Reporting Standards			
ISA	International Standards on Auditing			
IT	Information Technology			
LA	Local Authority			
LASAAC	Local Authority (Scotland) Accounts Advisory Committee			
NDR	Non Domestic Rates			

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COMMITTEE Audit & Risk

DATE 8th June 2010

DIRECTOR Stewart Carruth

TITLE OF REPORT Risk Management Progress Update

REPORT NUMBER CG/10/098

1. PURPOSE OF REPORT

To update members of the Committee on the status of the Corporate Risk Register and to inform members of the Committee of progress within Services on implementing risk management processes.

2. RECOMMENDATION(S)

It is recommended that Committee:

- 1 Agrees that the Corporate Risk Register is a fair statement of the significant corporate risks within the Council (Attached as appendix to this report).
- 2 Notes progress to date in updating the Service Risk Registers.
- 3 Agrees the reporting and review periods.

3. FINANCIAL IMPLICATIONS

Provision of £20,000 is contained within the Corporate Risk Management Budget. Some of this provision, within the terms of the Financial Regulations, has been used to acquire external expertise and support, to improve Risk Management processes and facilitate development work. There are no further direct financial implications, but the mitigation of risk is a key element of managing costs.

4. SERVICE & COMMUNITY IMPACT

There are no specific service or community issues arising from this report.

5. OTHER IMPLICATIONS

There will be a staffing resource allocated to Risk Management i.e. a nominated risk representatives within each Service, to assist with the review, monitoring and development of Service Risk Registers, and the subsequent co-ordination of these by the Performance, Audit and Risk Manager.

6. REPORT

1. Corporate Risk Register

Following significant revision, the Corporate Risk Register was submitted to this Committee in December 2009 for agreement. The Committee approved the Corporate Risk Register and a timetable for its ongoing review. In line with that timetable the “Red Risks” in the Register have been reviewed at March 2010 and the Register is submitted now for the Committee’s consideration.

The current overview of risks within the Corporate Risk Register is detailed in the “Risk Heat Map” below.

Risk Heat Maps Explained: Each identified risk is evaluated using a matrix which scores the Likelihood of the risk from 1 to 6 (increasing in likelihood the higher the score) and the potential Consequences of the risk from 1 to 4 (increasing in severity the higher the score). This 6x4 matrix is shown below. The circled numbers show the number of risks which have been scored for each square in the matrix.

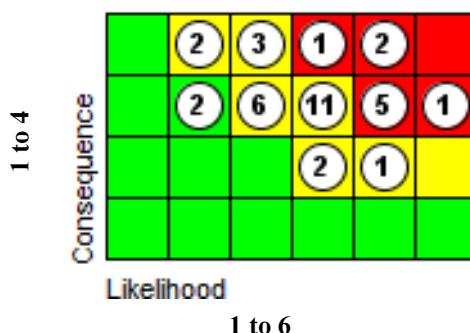
For example, the number 11 in the matrix below shows that 11 risks from the Corporate Risk Register are currently scored as:-

Likelihood = 4
Consequences = 3

Members viewing a hard copy of the circulated agenda will see the matrix as shaded rather than in colour. The undernoted key should assist:

- Green Risks – Bottom / Left
- Amber Risks – Middle
- Red Risks – Top / Right

Corporate Risk Register Heat Map



As can be seen there are 9 “Red Risks” compared to 12 when the Committee last considered the report in December 2009. This indicates that actions have been put in place to mitigate the identified risks. The significant changes in the Corporate Risk Register since December 2009 are:-

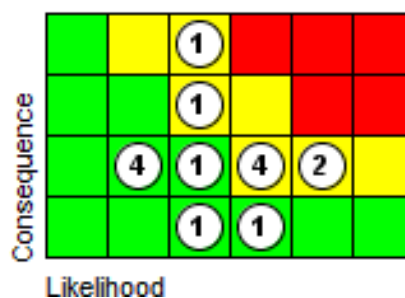
- i. **Risk 1** – “Failure to define corporate priorities” has been removed on the grounds that the Council has agreed an Interim Corporate Business Plan and a project has commenced to complete a 4 year costed Corporate Business Plan commencing 2011.
- ii. **Risk 8** – “Failure to comply with Health and Safety” has been reduced from a “Red Risk” to an “Amber Risk” on the grounds that a revised Health and Safety Policy detailing responsibilities and accountabilities was signed by the Chief Executive in February 2010.
- iii. **Risk 14** – “Failure to align service objectives with corporate objectives” has been reduced from a “Red Risk” to an “Amber Risk” on the grounds that Service Plans for the new Services have been, or are in the course of being, approved and that these explicitly align to the Interim Corporate Business Plan.
- iv. **Risk 28** – “Failure to identify a material risk facing the organisation” has been removed on the grounds that Risk Management arrangements have been improved and, following an audit conducted by Price Waterhouse Coopers, an improvement plan is in place.
- v. **Risk 34** – “Failure to realise the benefits of the new Development Plan and embrace the Structure Plan growth strategy through the new Local Development Plan” has been reduced from a “Red Risk” to an “Amber Risk” on the grounds that good progress has been made on a number of planning matters including the Structure Plan, Master Plans, Local Development Plan Main Issues report.

2 Service Risk Registers

Progress has been made in developing and embedding risk management arrangements across all Services since the Committee considered this issue in December 2009. The Corporate Policy and Performance Committee, at their meeting of 29th April 2010, agreed that as part of a consolidated approach to performance reporting that each Service Committee would receive and consider the appropriate Service Risk Register on a quarterly basis. A summary of progress and an overview of the Service Risk Registers is given below.

Office of Chief Executive

A Service Risk Register is in place for the Office of Chief Executive and the current overview of risks is detailed below.



Enterprise Planning and Infrastructure

A Service Risk Register is in place for the Enterprise Planning and Infrastructure Service and the current overview of risks is detailed below.



Housing and Environment

A Service Risk Register is in place for the Housing and Environment Service and the current overview of risks is detailed below.



Corporate Governance

A Service Risk Register is in place for the Corporate Governance Service and the current overview of risks is detailed below. The Register was fully reviewed at the end of March 2010. In preparing the Service's Business Plan, a review of the Risk Register has been undertaken to ensure appropriate actions are included within the Plan to manage the risks.

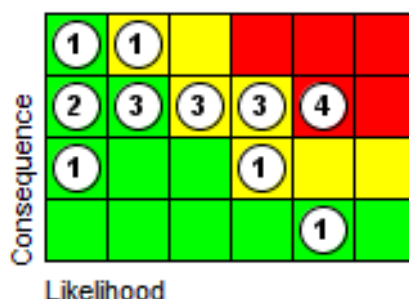


Education Culture and Sport

A Service Risk Register is in place for the Education, Culture and Sport Service. The Register is currently being imported into our electronic performance management system which will then generate a Risk Heat Map.

Social Care and Wellbeing

A Service Risk Register is in place for the Social Care and Wellbeing Service and the current overview of risks is detailed below. The Register was last reviewed in May 2010.



3 Review and Reporting Periods

As agreed by the Committee in December 2009, the Corporate Director of Corporate Governance will next report in full on risk management arrangements to this Committee in December 2010.

The annual programme for review of Corporate and Service risks for the remainder of 2010/11 is as undernoted:

June	–	Review Red and Amber Risks (Corporate Register)
August	–	Review Red Risks Only (Service Registers)
September	–	Review Red Risks Only (Corporate Register)
November	–	Full Review of all Risks (Service Registers)
December	–	Full Review of all Risks (Corporate Register)
February	–	Review Red Risks only (Service Registers)
March	–	Review Red Risks only (Corporate Register)

4. Internal Audit Report on Risk Management Process

The Committee is also considering, at this meeting, an Internal Audit report undertaken by Pricewaterhouse Coopers on the risk management process. It is worth commenting that the opinion of the audit recognizes that improvements have been made over the past 18 months and no “critical” recommendations have been made. Recent improvements over the last few months include:-

- Cross-referencing of Service Risk Registers to identify actions for Service Business Plan;
- Categorizing risks in line with Accounts Commission guidance as professional, financial, legal, physical, contractual, technological, environmental;
- As mentioned above, the agreement of the Corporate Policy & Performance Committee to put in place a single performance reporting model including

quarterly reporting to each service committee of PIs, actions, budgets and risks;

- Quarterly monitoring of risks by the Corporate Management Team and Services' Senior Management Teams;
- Inclusion of risk in 1-2-1 line management meetings;
- The completion of all Service Risk Registers;
- Work on revised competencies for managers which specifically include risk management.

The audit does highlight areas where further development is required and these improvements will form the basis of our improvement plan over the coming year.

7. AUTHORISED SIGNATURE

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8. REPORT AUTHOR DETAILS

Martin Murchie, Head of Performance Management & Quality Assurance

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522008

9. BACKGROUND PAPERS

Corporate Risk Register

Service Risk Registers

Corporate Risk Quarterly Report

Report Author: Martin Murchie
Generated on: 26 May 2010



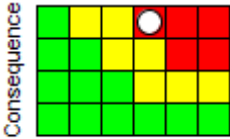
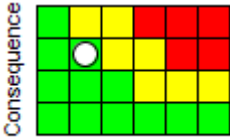
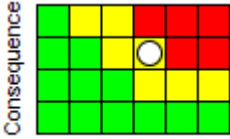
Business Risks

No.	Risk Description	Causes/Scope	Potential Consequences of Risk	Risk Control Measures	Risk Matrix	Risk Score	Action Now Proposed	Critical Success Factors	Managed By	Date of Last Review
CORP03	Failure to provide effective governance arrangements	Unable to ensure that the Council is doing things right, in the correct way, for the right people in a timely, inclusive, open, honest and accountable manner Lack of procedures, systems, culture and values to enable engagement with the community	Lack of vision and outcomes for the citizens of the city - no engagement No common purpose and clearly defined functions and roles for Members and Officers - lack of effectiveness Lack of informed decisions which are transparent and subject to scrutiny	All party Leadership Board set up to oversee the review, development and updating of the City Council's Local Code of Corporate Governance Officers to produce reports which outline policy options Members to attend appropriate training		6	Chief Executive to bring forward to Council a series of reports in 2009 refreshing the Council's governance arrangements.	None	Ciaran Monaghan	19 Nov 2009
CORP07	Failure to deliver Best Value	Lack of clear programme of Best Value Service Reviews (review work may not be recognised as such) Potential reluctance to challenge the	Services which are not delivering value for money.	Agreement and implementation of rolling programme of Best Value Service Review; Systematic self-assessment of services embedded within planning cycle. Assess use of Audit		9	Agree corporate approach to self-assessment. Presentation to CMT in October 2009. Agree programme of Best Value Service Reviews (incorporating	Positive Audit of Best Value & Community Planning	Paul Fleming	09 Nov 2009

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No.	Risk Description	Causes/Scope	Potential Consequences of Risk	Risk Control Measures	Risk Matrix	Risk Score	Action Now Proposed	Critical Success Factors	Managed By	Date of Last Review
		existing ways of doing things Partial data on which to quantify/measure Best Value and test competitiveness.		Scotland BV Toolkits in advance of BV2 (depends on outcomes of national Pathfinders)			extensive ongoing review work). Guidance on Best Value Service Reviews to be reviewed. Continue development of benchmarked performance including unit costs and customer satisfaction.			
CORP10	Failure to satisfy the requirements of the Inspectorates improvement Plans	Failure to comprehend the role and authority of Regulatory bodies Failure to respond adequately to a critical report	External parties brought in to assist the Council Reputation damage Impact on service delivery	Make sure the Council is aware of all regulatory involvement for the organisation e.g. SWIA, HMIE, Care Commission, Food Standards Agency, Audit Scotland, Housing Regulator Ensure robust preparation mechanisms in place Ensure all Statutory PIs are robust Clear lines of responsibility at Head of Service level		12	Priority to be given to delivery on improvement plans. Council to work closely with Audit Scotland and other inspection agencies in jointly assessing and agreeing risks ahead of further audit activity.	None	Ciaran Monaghan	19 Nov 2009
CORP12	Failure of Chief Officers and Managers to manage the Council	Lack of skills, experience and credibility Political Mandate - Freedom to act Existence of control and authority mechanisms such as Financial Regulations Leadership	Change difficult to achieve Reduction in performance Effect of reducing workforce = loss of skills Reputational damage External input - not locally responsive Loss of skilled and committed staff	Rigorous Selection Process Performance Monitoring Regime - internal and regulatory Performance Appraisal Effective use of Performance Management System Focus - Direction, Governance		12	New team of Directors working with the Chief Executive to set out clearly the expectations of management within the Council. Recruitment of a new team of Heads of Service to be	None	Ciaran Monaghan	19 Nov 2009

No.	Risk Description	Causes/Scope	Potential Consequences of Risk	Risk Control Measures	Risk Matrix	Risk Score	Action Now Proposed	Critical Success Factors	Managed By	Date of Last Review
		Direction - delegated powers Too much direction - lack of focus	Recruitment difficulties Morale of staff affected	Appointment of Chief Executive Effective Governance Effective Communication			completed by the start of 2010.			
CORP13	Failure to produce and utilise effective management information	People do not know extent of available information Data available not properly interpreted Information overload Failure to produce effective and robust information Failure to use this information appropriately	Poor decision making Capacity to improve diminished Poor value for money	Ensure production of effective management process Feedback mechanisms in place Lead Officer to undertake the issues Further develop performance information at local level to enable comparison between areas of and with the performance of each service overall		12	Subject to review for clarification of intent	None	Paul Fleming	19 Mar 2010
CORP14	Failure to align service objectives with corporate objectives	Failure to engage stakeholders in the corporate decision making process. Corporate Policy is not driven by Service delivery needs. Failure to implement agreed policies and procedures. Ineffective communication processes so that Services do not always know what is required. Objectives not clearly prioritised and communicated as such. Communication of	Resources not deployed to achieve corporate priorities. Failure to achieve corporate priorities. Inconsistent service delivery. Employees not "connected" to corporate sense of purpose.	Corporate objectives are clearly defined within the Corporate Plan and are agreed following appropriate engagement. Corporate objectives reflect service needs and capabilities. "Golden Thread" clearly in place from corporate objectives to Service, Team and individual level.		12	Corporate Interim Business was approved by Council in December 2009 following extensive consultation. Service Planning guidance approved by CMT. New Service Plans to be in place for beginning of 2010/11. Resident Survey completed to feed into Service Planning.	Service Plans are in place, are accepted and understood by members and officers, are clearly linked to the Corporate Plan and are known to be deliverable through allocation of resources	Paul Fleming	19 Feb 2010

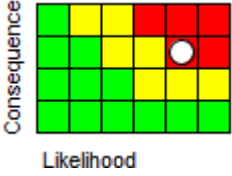
No.	Risk Description	Causes/Scope	Potential Consequences of Risk	Risk Control Measures	Risk Matrix	Risk Score	Action Now Proposed	Critical Success Factors	Managed By	Date of Last Review
		priorities not undertaken.								
CORP15	Failure to plan for business continuity	Failure to accept that a Business Continuity plan is required Failure to recognise the impacts arising from loss of staff, systems and/or facilities. Failure to recognise and reduce risks which may lead to loss of the above. Failure to ensure that there is a properly resourced Emergency Planning function	Inability to provide critical services. Service disruption at a higher and longer level than would be the case with planning. Lack of ability to react to a crisis. Failure to identify internal and external dependencies.	Production of Council Business Continuity Policy and Procedures document. Production of Business Continuity Plans at functional level. Implementing, testing, exercising and maintenance programme for all plans	 <p>Likelihood</p>	16	Ensure Business Continuity plans are in place throughout the organisation with the priority being on functions deemed most critical in terms of: welfare and the environment; finance; statute; reputation and emergency response.	None	Pete Leonard	13 Oct 2009
CORP16	Failure to establish and maintain appropriate structures to maximise service delivery	Failure to understand or correctly interpret, the corporate priorities Distributed/Central ised, Functional/Geographic, In-House/Contracted	Inefficiencies Poor customer service	Revised Directorate structure with a key focus on supporting front-line service delivery.	 <p>Likelihood</p>	6	Directors and Chief Executive working on Heads of Service structures to be taken to Council in October/November 2009 with a view to recruitment being completed by the start of 2010.	None	Ciaran Monaghan	19 Nov 2009
CORP17	Inefficient and Ineffective processes, leading to duplication and lack of appliance	Failure to provide an internal regulatory framework eg Scheme of Delegation, Financial Regulations, Standing Orders etc Failure to	Inefficiencies Illegal activity Uncontrolled activity	Internal/External Audit Business Process Re-Engineering Capacity to hold procedures and policies in The Zone and available to all.	 <p>Likelihood</p>	12	Review policies and procedures Process redesign	Policies and Procedures have been requested from the Services and collated Checks have been made for duplicates The indexing is complete for all electronically available Policies and	Paul Fleming	31 Mar 2010

No.	Risk Description	Causes/Scope	Potential Consequences of Risk	Risk Control Measures	Risk Matrix	Risk Score	Action Now Proposed	Critical Success Factors	Managed By	Date of Last Review
		monitor compliance with the regulatory framework using PIs, Internal Audit. Processes are not efficient						Procedures A paper has been presented to Director of CG MT in September 2009 for decision on the next stage		
CORP22	Failure to put in place effective crisis and emergency management practices	Tendency to put daily work pressures and commitments to top of priority list. Lack of appreciation of the benefits of a preplanned framework of crisis/emergency response.	An increased level of damage to the council's reputation and a reduced capability to manage the effects of emergencies on the council, the community and the infrastructure of the city. Failure to comply with the Civil Contingencies Act 2004	Maintenance of the Emergency Planning Unit. Production and maintenance of the Emergency Planning Policy & Procedures document. Maintenance of Business Continuity arrangements.	<p>Consequence</p> <p>Likelihood</p>	15	Review Emergency Planning and Business Continuity Policy documents to reflect change in council structure. Develop service incident management plans and provide training to those involved.	None	Pete Leonard	13 Oct 2009
CORP23	Failure to deliver improvement programmes, including efficiencies	Inadequate corporate direction and accountability for delivery Abilities / skills / experience of key personnel Lack of clarity in the objectives Inadequate determination of activity required for delivery of improvement and / or efficiencies	Damage to credibility of the Council Services are not efficient, effective, and responsive Staff are not properly managed Lack of communication and understanding of aims of the Council Failure to respond to external audits and inspections Cost savings and efficiencies not achieved; Insufficient capacity or	Planning and delivery of improvement and / efficiency projects Creation of Efficiencies - 2% per year Ensure the Council's priorities drive continuous improvement and secures Best Value across all service areas Secure more consistent service improvement through performance management to demonstrate improvement Develop strategic resource	<p>Consequence</p> <p>Likelihood</p>	9	Research and benchmarking to identify real improvement / efficiency opportunities; Diagnostic Pathway to identify efficiency / shared service opportunities; Development of business case building to provide sound base for achieving improvements; Challenge being provided to proposed improvements to	Moved to a structured strategic approach - Corporate Improvement Plan. Change Managers now allocated to each Service and are working to fulfillment of corporate objectives with their allocated service. Also working with allocated service for in-service change. Corporate approach being taken to ensure all budget savings over £300k properly set up for timely delivery. Focused working by	Paul Fleming	31 Mar 2010

No.	Risk Description	Causes/Scope	Potential Consequences of Risk	Risk Control Measures	Risk Matrix	Risk Score	Action Now Proposed	Critical Success Factors	Managed By	Date of Last Review
			capability to deliver improvement / efficiencies	management to support the improvement / efficiency programme & develop, a long-term financial strategy			ensure that they are real, are required re service delivery standards, and are achievable;	SDD with each Service to ensure delivery of the Efficiency projects which individually and collectively will create significant change across the Council services. Other specifics will follow.		
CORP24	Failure to deliver major projects	Budget restrictions Political Commitment, change of Leadership- change of priorities Resources implications, lack of skills and experience Government imposed constraints - procurement process may not offer best value e.g. 3R's project PPP	Timing dictated by constraints and not operational needs Impact on other regeneration opportunities Status of the city will suffer; projects not delivered or delivery takes too long and is therefore unnecessary drag on resources;	Good project management skills Good scrutiny practices, prior to Project Commitment Ensure that a project risk register is in place Option appraisals Client element of all projects to understand and accept their role in the delivery; clear and agreed deliverables from outset of project; dedication of required resource to the project for its duration;	<p>Consequence</p> <p>Likelihood</p>	12	Development of Project Management Skills Project reviews; review of project management guidelines to simplify process but strengthen focus on crucial elements of project planning and delivery; Internal Audit team to put review in place.	Property resources Project Management teams to ensure delivery. New Heads of Service to review Organisation of Project Teams in EP&I	Gordon McIntosh	18 Mar 2010
CORP27	Failure to deliver an effective fraud prevention strategy	Failure to recognise the need for a strategy Lack of awareness of Fraud techniques Lack of a fraud prevention policy	Losses Audit criticism Poor press coverage Reputational damage - soft touch Fraud encourages others to do the same	Anti-Fraud and Corruption Strategy in place Good basic controls Whistleblowing policy Awareness of Fraud techniques Good information sharing protocols Updating Money Laundering Policy	<p>Consequence</p> <p>Likelihood</p>	12	Review and update Anti-Fraud and Corruption Strategy Include controls in Annual Internal Audit Plan	None	Barry Jenkins	11 Nov 2009

No.	Risk Description	Causes/Scope	Potential Consequences of Risk	Risk Control Measures	Risk Matrix	Risk Score	Action Now Proposed	Critical Success Factors	Managed By	Date of Last Review
CORP38	Failure to Manage Performance Effectively	Lack of sufficient and effective measures within the Service to drive performance improvements	Failure to deliver Service Performance Improvements	Review current performance monitoring and reporting processes and procedures	<p>Consequence</p> <p>Likelihood</p>	9	Refinement of Performance management systems which focus on key areas.	Under Review	Annette Bruton	20 Nov 2009

Social Risks

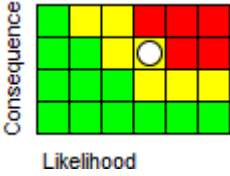
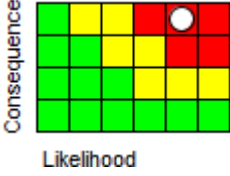
No.	Risk Description	Causes/Scope	Potential Consequences of Risk	Risk Control Measures	Risk Matrix	Risk Score	Action Now Proposed	Critical Success Factors	Managed By	Date of Last Review
CORP33	Failure to deliver agreed regeneration strategies and opportunities	Lack of funding Failure of clear objectives Failure of knowing roles and responsibilities Failure to identify regeneration needs Failure to engage across services Failure to deliver agreed strategies and opportunities Failure to engage with partners	Widening gap between communities degrading quality of life for Citizens within the City. City status and reputation will decline, increase in crime, poverty, unemployment, homelessness, educational performance, and associated costs will rise.	Regeneration strategy review. Fairer Scotland Fund programme, and themes. Focus on the regeneration areas/build profile of planned and prioritised actions. Stakeholder involvement. Neighbourhood planning and local partnerships.	 <p>Consequence</p> <p>Likelihood</p>	15	Revised regeneration strategy identify resources Identify responsibilities agree priorities City Centre Framework. Project Director Economic Development, community regeneration to focus on 7 areas, reassess post simd release in Oct 09. Mainstream services to set stretch re SOA.	Reduction in the 0-15% data zones. Improved quality of life indicators in the regeneration areas	Gerry Brough	09 Nov 2009

Customer/Citizen Risks

No.	Risk Description	Causes/Scope	Potential Consequences of Risk	Risk Control Measures	Risk Matrix	Risk Score	Action Now Proposed	Critical Success Factors	Managed By	Date of Last Review
CORP11	Failure to provide appropriate customer service standards	Lack of clarity and consistency across the City on key standards Pockets where a customer focused culture is not embedded	Customer expectations not met Reputation of the Council affected	Customer Service Strategy prepared. Organisational structure to mitigate inconsistency of standards. Complaints procedure in place. Corporate and Service level standards in place. Customer Service Standards Leaflets published. Customer First Toolkit. Customer Contact Centre. Customer Access points. Incorporate citizen satisfaction measures within performance reporting arrangements.	<p style="text-align: center;">Likelihood</p>	8	Area based organisational structure has changed and inconsistency of standards will be minimised Corporate Standards published within Customer Service Strategy New Services will review standards Customer feedback will be consistently gathered through a corporate consultation, again this is included in the Customer Services Strategy. Customer Service Strategy - Draft prepared for wider consultation	Service Standards are agreed and understood by members and officers based on systematically assessed user needs. Customers tell us they know what standards they can expect and they accept these are appropriate.	Paul Fleming	20 Nov 2009
CORP31	Failure to communicate effectively with key stakeholders	Failure to identify who the stakeholders are Failure to engage openly with them - balanced relationship Failure to maintain good lines of communication	Lack of co-operation Unwillingness to deal with the Council - negative effect on delivering projects/partnership activities Public criticism from disaffected	Effective external communications Community Plan Links with Business Community and Voluntary Sector compacts Effective use of "City Voice" Consultation and	<p style="text-align: center;">Likelihood</p>	12	Chief Executive prioritising communication with all relevant stakeholders while at the same time ensuring that the Council's planning hierarchy from National Outcomes	None	Ciaran Monaghan	19 Nov 2009

No.	Risk Description	Causes/Scope	Potential Consequences of Risk	Risk Control Measures	Risk Matrix	Risk Score	Action Now Proposed	Critical Success Factors	Managed By	Date of Last Review
		Failure to make clear Aberdeen CC / Stakeholder relationships - managing expectations	stakeholders Loss of potential external funding opportunities Reputational damage Loss of potential match funding opportunities	Community engagement used Promote a responsive culture Implement protocols for key specific service users Links with Govt - e.g. External Support Group/COSLA Increase level of challenge to existing ways of doing things to ensure that services are designed around the needs of users			to individual work plans is clear and understood.			

Financial Risks

No.	Risk Description	Causes/Scope	Potential Consequences of Risk	Risk Control Measures	Risk Matrix	Risk Score	Action Now Proposed	Critical Success Factors	Managed By	Date of Last Review
CORP21	Failure to carry out a proper risk analysis when entering into a financial commitment	No full understanding of the nature of the commitment Lack of skill and experience on the part of the Council Lack of understanding of the role of all the parties	Failure to deliver expected outcomes Additional costs May incur a long term contingent liability	Option appraisals Embedded Risk culture/optioning exercise Effective Project Management Life Cycle costing		12	Undertake: Option appraisals Embedded Risk culture/optioning exercise Extend Life Cycle costing	None	Barry Jenkins	20 Nov 2009
CORP25	Failure to deliver the budget	Poor leadership within services Lack of proper budget setting processes Lack of proper budget monitoring Failure to recognise and plan for demand led pressures on the budget Service standards higher than necessary, or higher than those on which the budget was based Economic climate resulting in reduced income levels or higher than predicted costs or inflation levels	Reputational damage Forced service cuts Reactive management and potential external intervention Staffing implications - recruitment, retention and morale Voluntary severance and early retirement - loss of skills and strain on Pension Fund	Budget processes have been made more robust The interim functional structure facilitates the setting of priorities and identification of efficiencies Option appraisal is now considered at earlier stage of budget setting Rigorous budget and out turn scrutiny by officials and members Extensive work done to support the transformation programme and develop a long-term financial strategy Savings are built into future budgets. The revised service		20	Enhance Member and Officer challenge on budget proposals React quickly and appropriately to unavoidable overspends Explore early warning systems to identify any budgetary impact arising from the economic down turn. Meetings with Directors and appointed Heads of Service to clarify detailed budgets and cost centres allocated Further review training requirements of	Members have received Scrutiny and Local Government Finance Training Finance Briefings for Budget Holders undertaken in Oct/Nov 09. Roles & Responsibilities of Budget holders clarified along with monitoring and use of financial planning tool to assist in budget monitoring, planning and forecasting to clarify budget position Accountancy staff assigned to services, and attend SMT meetings. Service Committee structure now included direct	Barry Jenkins	31 Mar 2010

No.	Risk Description	Causes/Scope	Potential Consequences of Risk	Risk Control Measures	Risk Matrix	Risk Score	Action Now Proposed	Critical Success Factors	Managed By	Date of Last Review
		Significant staff changes and lack of clear lines of accountability and handover procedures		structure aligns Director responsibility and service committee reporting. Developing a new budget monitoring tool - Financial Planning - for budget holders. Ongoing review of this tool by user group chaired by Corp Accounting Manager. Looking at spend trends to give early warnings Plan is that all schools will be off the BOSS feeder system and on to eFinancials by 31 March 2010.			budget holders and budget managers in relation budget monitoring tool (CP)	accountability of each appropriate service including performance on budget		

Legislative Risks

No.	Risk Description	Causes/Scope	Potential Consequences of Risk	Risk Control Measures	Risk Matrix	Risk Score	Action Now Proposed	Critical Success Factors	Managed By	Date of Last Review
CORP08	Failure to comply with Health and Safety requirements	Lack of acknowledgement or need for a H&S culture Failure to issue a clear policy or guidelines Failure to allocate sufficient resources	Avoidable death and injury Unsafe workplace Reputational damage to the Council Prosecution Payment of damages or compensation	Corporate Health & Safety Policy Service Health & Safety Policy Health & Safety Training Adequate Resources		12	Knowledge of Health & Safety Projects. Also need to ensure that health and safety responsibilities in the new structure are clarified, agreed and communicated	Health and safety policy detailing responsibilities and accountabilities signed by Sue Bruce on 9/2/2010 available on the Zone. Services must detail their arrangements on how they will implement the corporate policy. Local arrangements will be required for establishments. This information must be relayed to employees. Director involvement training available for all 4th tier and above.	Ewan Sutherland	25 Mar 2009
CORP09	Failure to provide a corporate framework which promotes and supports compliance with Freedom of Information requirements /Data Protection legislation/ RIPSA	Failure to understand the requirements of the Acts Failure to handle data appropriately - retention of documents as required Failure to get data approved by the Regulator	Criticism by the regulators Criticism by the public, press, private sector Damage to businesses or individuals by an illegal data release	Effective Records Management.		9	All Services to be required to identify DPLOs and FOIOLs (as a consequence of current restructuring exercise). All Services to be reminded of the need for effective records management.	None	Jane MacEachran	12 Nov 2009

No.	Risk Description	Causes/Scope	Potential Consequences of Risk	Risk Control Measures	Risk Matrix	Risk Score	Action Now Proposed	Critical Success Factors	Managed By	Date of Last Review
CORP26	We have recently implemented a pay and grading system which is demonstrably free from bias. If this system is not maintained then it maybe necessary to re-do the work in the future.	The Equal Pay Act 1970, provides employees and trade unions with a mechanism for challenging rates of pay applied to the post they currently work in. In addition to this "no-win-on-fee" lawyers have been equally active in Scotland seeking out clients who think thaw should be earning more money. Since the implementation of the new pay grades on the 1st May 2009, the Council has a defence against challenge. However as the organisation changes and evolves, if any job achieves a pay level, higher than the job evaluation outcome would suggest, this could be used as the basis of the challenge.	The consequence of even one Equal Pay claim going against the Council on at tribunal, could be financially devastating ultimately running to possibly tens of millions of pounds. It may also result in new job evaluation outcomes being imposed on the Council by a Tribunal appointed JE expert.	All new jobs in the Council, should be subjected to formal job sizing prior to being filled. Further any changes to existing jobs need to be monitored to ensure that the existing JE outcome is still valid Schools to move from BOSS feeder to Efinancials by end of March	<p>Consequence</p> <p>Likelihood</p>	20	All business cases and Committee reports need to be consulted with HR.	Bi-annual pay review to be undertaken and Equal Opportunities SPI produced annually	Ewan Sutherland	17 May 2010

No.	Risk Description	Causes/Scope	Potential Consequences of Risk	Risk Control Measures	Risk Matrix	Risk Score	Action Now Proposed	Critical Success Factors	Managed By	Date of Last Review
CORP29	Failure to ensure that the Council's activities are within its legal powers	Failure to identify key risk areas - where we are most likely to break the law Failure of Chief Officers to acknowledge their legal responsibilities Poor training Failure to identify and respond to changes in legislation	Litigation - sued/fined Liability for compensation Reputational damage Harm to persons or organisations	Standing Orders Procurement procedures Delegated powers Democratic Process City Solicitor is Council Monitoring Officer Effective Records Management	<p>Consequence</p> <p>Likelihood</p>	12	Services to undertake training in new Standing Orders	None	Jane MacEachran	12 Nov 2009
CORP36	Inconsistent interpretation and application of the Protection of Children (Scotland) Act 2003	Lack of a consistent approach across the Service	Children may be put at risk from unsuitable individuals having access to them	Guidelines and processes in place for Council Employees	<p>Consequence</p> <p>Likelihood</p>	8	Review of Guidance and analysis of failures	Under Review	Annette Bruton	20 Nov 2009

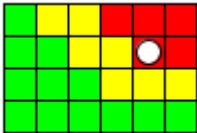
Partnership Risks

No.	Risk Description	Causes/Scope	Potential Consequences of Risk	Risk Control Measures	Risk Matrix	Risk Score	Action Now Proposed	Critical Success Factors	Managed By	Date of Last Review
CORP30	Failure to implement Community Plan and work effectively with community partners	Lack of understanding of the key aims of the plan Lack of direction from CMT Failure to agree on priorities and targets Failure to align to budgets Failure to deliver on Single Outcome Agreement	Lack of progress in achieving improvements for the city and it's citizens Reputational damage to the City and the Council Loss of potential future funding	Produce revised Corporate Plan, Redraft Community Plan as narrative to the SOA 2009 , with regular reviews and updating built in to SOA performance report to TACA, When preparing the new community plan, ensure that it sets out clear responsibilities among the various partners for delivering specific priorities and that priorities are aligned to budgets, TACA to redesign agendas to consider a theme within the SOA at each of its meetings to be lead by the lead partner or forum to consider the wider partnership and partners contribution to achieving priority outcomes, TACA priorities defined and agreed as to where TACA can add value to the work of the wider forums in the achievement of	<p>Consequence</p> <p>Likelihood</p>	9	Feed in as part of the councils corporate plan/service plans/team plans etc demonstrate the golden thread.		Paul Fleming	10 Nov 2009

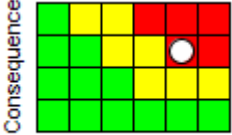
No.	Risk Description	Causes/Scope	Potential Consequences of Risk	Risk Control Measures	Risk Matrix	Risk Score	Action Now Proposed	Critical Success Factors	Managed By	Date of Last Review
				specific outcomes by Jan 2010.						
CORP32	Failure to engage in Shared Services agenda	Failure to acknowledge the benefits of Shared Services Protectionist attitude - fear of losing control No funds if investment required No one given any primary control to kick start an initiative Adopting an overly risk averse approach when speed and flexibility in decision making is necessary	Failure to realise potential savings May be forced upon the Council Lack of progression and development	NE Scotland shared services board Delivery of shared service projects Review scheme of delegation to enable empowerment of managers decision making		8	Shared service activity to be included within job specification and objectives and Head of Service training slots Shared services to be implemented before year end Modernisation fund available to pump prime shared service spend to save initiatives Profile of shared services raised through CMT/Shared Services Board Clear lead for activity to be given to the accountable service director(s) and to be monitored through the 1:1 corporate process		Stewart Carruth	12 Nov 2009

People Risks

No.	Risk Description	Causes/Scope	Potential Consequences of Risk	Risk Control Measures	Risk Matrix	Risk Score	Action Now Proposed	Critical Success Factors	Managed By	Date of Last Review
CORP18	Failure to maintain good industrial relations	Failure to engage meaningfully and usefully with the Trade Unions Reliance on formal mechanisms as opposed to informal Failure to reflect union perspectives in management proposals Failure to capitalise on the positive contribution Trade Unions can make to organisational initiatives	Confrontation and potential disputes/industrial action Poor press Reputational damage	Engage with unions both formally and informally Ensure adequate consultation processes are in place and that consultation itself is meaningful Address and seek resolution of issues of concern as soon as is practicable		18	Weekly meetings established in relation to EP & M implementation ongoing. Service UMCS established Regular dialogue between Senior Managers within Services, HR and Trade Union Reps	Completion of EP&M Job Evaluation Appeals by mid 2011. Number of disputes registered by Trade Unions on failure to consult	Ewan Sutherland	25 Mar 2010
CORP19	Failure to have effective communication processes (internal and external)	Failure to recognise the need for effective communication Culture of secrecy Failure to train staff and elected members in key communication skills Failure to deal effectively with media enquiries Failure to communicate to staff key messages	The Council and it's work is not effectively promoted Staff do not receive essential information which may lead to mistrust Public attitudes to the Council become increasingly negative So much in press before going through management	Dedicated Communications Team to deal with internal and external communication Team Talk issued monthly to staff 1-2-1 Appraisals carried out Intranet for staff information - The Zone Team Plans in place Elected members and Senior staff receive training on handling the media Council website		9	Regularly monitor communications and ensure communications strategies are in place	None	Ciaran Monaghan	19 Nov 2009

No.	Risk Description	Causes/Scope	Potential Consequences of Risk	Risk Control Measures	Risk Matrix	Risk Score	Action Now Proposed	Critical Success Factors	Managed By	Date of Last Review
			channels	regularly updated and other communication methods used to make contact with key stakeholders Council to promote a positive image of the Council Build the reliability of internally produced communications Create on line internal collation of and response to press comments						
CORP20	Failure to engage effectively with staff (morale and motivation)	Lack of Communication Lack of training Not recognising staff values Poor management Lack of face to face meetings and team meetings	Poor performance Lack of motivation Higher absenteeism	Effective feedback process in place to gauge implications of current situation Effective HR policies Employee Engagement Know what type of employer we want to be - e.g. Staff Opinion Surveys/suggestion schemes/Team Talk Visibility of Senior Management 1:1's Appraisals Corporate Decathlon Training Raise staff morale, and foster greater engagement with the improvement programme Staff Survey - take on board feedback via these - establish and	 <p>Consequence</p> <p>Likelihood</p>	15	Ensure all Risk control measures are fully operational	People Dimension Group established and meeting regularly to review morale, engagement and people aspects of Council initiatives; Flexible Working policy introduced; Successful Recruitment policy; teamtalk replaced by informal staff newsletters and regular management briefs; senior manager conferences replaced by line manager briefings including a wider management audience; 360 appraisals introduced for 1st to 3rd tier; 1-2-1s introduced for 1st to 4th tier;	Ewan Sutherland	01 Apr 2010

No.	Risk Description	Causes/Scope	Potential Consequences of Risk	Risk Control Measures	Risk Matrix	Risk Score	Action Now Proposed	Critical Success Factors	Managed By	Date of Last Review
				utilise effective mechanisms Use made of staff suggestions or if not used make clear reason why				Corporate Decathlon participation for last 3 events; development programmes introduced for managers and employees including development centres, mentoring, external accreditation and eLearning; measures taken to improve engagement including ACE ideas scheme, managers and employee handbooks on Zone, engagement toolkit on Zone, Recognising Achievement Ceremonies, employees invited to contribute views via Shaping Services exercise		
CORP35	People Protection	Unpredictability of human behaviour	Serious harm to public Death Loss of reputation for Council	Competence in assessment intervention and care planning skills Controls operating effectively but not fully Adult protection arrangements now up and running		15	Comprehensive assessment framework to be taken forward in children services Strengthen role of Aberdeen child protection sub-committee and strategic planning arrangements for integrated childrens services Integrated (joint futures) management	None	Fred McBride	26 May 2010

No.	Risk Description	Causes/Scope	Potential Consequences of Risk	Risk Control Measures	Risk Matrix	Risk Score	Action Now Proposed	Critical Success Factors	Managed By	Date of Last Review
							arrangements with health are being reviewed Quality assurance mappa exercise to be undertaken via Northern Criminal Justice Authority			
CORP37	Difficulties in recruiting appropriate staff to Senior positions within the EC & S Service	Impact on the effective and efficient operation of the Service	Effective Management of the Service will be undermined	Review recruitment process to make packages more attractive to potential applicants	 <p>Consequence</p> <p>Likelihood</p>	15	Analyse and review reasons for low response to Senior posts which are advertised.	Under Review	Annette Bruton	20 Nov 2009

Physical Risks

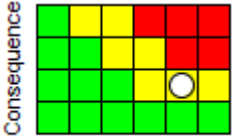
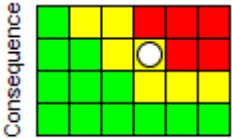
No.	Risk Description	Causes/Scope	Potential Consequences of Risk	Risk Control Measures	Risk Matrix	Risk Score	Action Now Proposed	Critical Success Factors	Managed By	Date of Last Review
CORP34	Failure to realise the benefits of the new Development Plan and embrace the Structure Plan growth strategy through the new Local Development Plan.	Lack of housing, commercial and industrial development Inability of market to deliver Unwillingness to accept the required scale of development and identify appropriate locations.	Areas of deprivation Continued migration out of the city Lack of economic growth Impact on Council finances Imbalanced population structure Increased congestion Lack of developer contributions for affordable housing, infrastructure and other services Lack of critical population mass to support services and facilities	Implement recently approved Structure Plan, including the strategy for growth, through the Local Development Plan. Monitor planning permissions and completions (retail, hotels, housing, employment) and availability of housing and employment land. Determine planning applications in accordance with the Development Plan. Prepare master plans for major allocations (including delivery plans). Continue to work with ACSEF and the private sector to improve the planning process, including embracing the culture change required for the effective implementation of the new Planning Act. Continue to liaise with house builders on the current economic situation.	<p>Consequence</p> <p>Likelihood</p>	12	Monitor the current Local Plan to help inform the next Local Development Plan Progress preparation of new Local Development Plan in accordance with the approved Development Plan Scheme, including actively engaging with Elected Members and communities to ensure an understanding of the growth strategy and also ensuring a corporate approach across the Council Continue to work with developers and the private sector to embrace the culture change, improve the planning process and encourage investment Consider options for the Council proactively facilitating development (through, for example, land acquisitions and infrastructure	Structure Plan submitted on time and approved by Scottish Ministers in August 2009. Master plan process approved by Planning Committee and now being implemented. Master plans prepared, or in preparation for some key sites. Work continuing with ACSEF on culture change and improving the planning process. Housing Land and Employment Land Audits for 2009 completed. Retail and hotel monitoring report to presented to Planning Committee. Local Development Plan Main Issues report approved for public consultation for October to December 2009. Work continuing and on target to provide next committee progress update	Gordon McIntosh	17 Mar 2010

No.	Risk Description	Causes/Scope	Potential Consequences of Risk	Risk Control Measures	Risk Matrix	Risk Score	Action Now Proposed	Critical Success Factors	Managed By	Date of Last Review
							provision and a City Development Company). 17/3/10 Careful watch on economic conditions continuing.			

Political Risks

No.	Risk Description	Causes/Scope	Potential Consequences of Risk	Risk Control Measures	Risk Matrix	Risk Score	Action Now Proposed	Critical Success Factors	Managed By	Date of Last Review
CORP02	Failure of Elected Members to lead, or provide scrutiny of the Council	Lack of understanding of their role Tensions between political role and leadership role Failure of officers to provide accurate information to members to assist them in their role Councillors are overstretched Failure of officers to submit reports timeously	Lack of clear direction which affects the decision making process Loss of accountability from poor scrutiny Insufficient time to scrutinise because of late submission of reports	Rigorous induction process - ongoing training in matters such as scrutiny and performance issues Opposition chaired scrutiny panel Effective committee support - focus and targeted information Develop performance scorecards to committees focusing on improvements in customer satisfaction measures, unit costs and benchmarking Clear option appraisals on policy Fewer late reports submitted to meetings	<p>Consequence</p> <p>Likelihood</p>	8	The Audit and Risk Committee chaired by an opposition councillor has now been established and meets each cycle Training on scrutiny has been provided to a number of members via CIPFA and further sessions are planned	Establishment of Audit and Risk Committee and approval of remit Training for Convenor and Vice Convenor on changing the scrutiny function Training of all Councillors in scrutiny, ongoing via CIPFA Successful implementation of methodology for referring items for scrutiny Since introduction of new committee structures, there has been a significant reduction in the number of late reports submitted to members.	Jane MacEachran	20 Nov 2009

Technological Risks

No.	Risk Description	Causes/Scope	Potential Consequences of Risk	Risk Control Measures	Risk Matrix	Risk Score	Action Now Proposed	Critical Success Factors	Managed By	Date of Last Review
CORP04	Failure to deliver a Corporate Asset ICT Management Plan	No commitment to Asset Management planning process Skills not available within the Council to undertake this	Investment decisions tend to be reactive rather than pro-active Declining standards - inhibits re-generation Reputation damage Ineffective Capital/Revenue programmes Depreciation of asset base beyond requirements for modern technology requirements Inefficient levels of productivity and increasing cost of service maintenance IT not able to support core objectives of Services	Produce and deliver against a Corporate ICT Asset Plan Ensure a proper structure in place and resource to manage Corporate ICT Asset Plan Co-ordinate the production from Services of an Annual inventory check	 <p style="text-align: center;">Likelihood</p>	10	Following a review of the ICT Technical Strategy during summer of 2009, produce a Corporate ICT Asset Management Plan linked to capital revenue programmes	ICT Business Strategy and ICT Technical Strategy in place. Being worked with as core to the production of a Corporate Asset (ICT) Plan. Recording of assets improving.	Paul Fleming	09 Nov 2009
CORP05	Failure to maximise the benefits arising from new technology	Lack of skills Lack of innovative thinking regarding the application of technology to work processes and requirements Budget restrictions Risk averse - comfort zone approach Little or	Inefficient and ineffective service delivery Poorer customer service delivery Higher costs of inefficient service delivery due to not utilising new technology	Foster a culture which encourages innovation Performance Management/Benchmarking Identify and adopt practices making use of technology differently from us for the same services Review of	 <p style="text-align: center;">Likelihood</p>	12	Identify and adopt practices making use of technology differently from us for the same services Maximum utilisation of existing applications and systems	This requires two approaches. First the utilisation of technology by clients in their business delivery. This is being progressed through the work of the project leaders working with services on bringing in and	Paul Fleming	09 Nov 2009

No.	Risk Description	Causes/Scope	Potential Consequences of Risk	Risk Control Measures	Risk Matrix	Risk Score	Action Now Proposed	Critical Success Factors	Managed By	Date of Last Review
		no acceptance of technological change Failure to see uses for technology beyond the primary reason		market from perspective of poor performance to seek solutions Maximum utilisation of existing applications and systems ICT Asset Strategy				better using existing applications. Secondly there needs to be better utilisation of the actual technology available and this is being progressed through various means, e.g. server virtualisation. Linked to and driven by the creation of the new data centre		
CORP06	Failure to protect IT data and infrastructure	Failure to identify and implement an effective IT security strategy Complacency and lack of discipline including laptops / Blackberrys out of office use, data transferred via mail Failure of staff to adhere to security arrangements Disregard of legal requirements under Data Protection Act	Loss of data Service interruption Embarrassment Reputational damage	ICT Security protocol DATA Protection Legislation/Freedom of Information Act Awareness & Compliance "For your eyes only" training package on security requirements which is available to staff	<p>Consequence</p> <p>Likelihood</p>	12	Review of market from perspective of poor performance to seek solutions. Review of potential breaches is conducted daily with extensive spam and other unwanted access being monitored. Any specific issues noted from daily monitoring are followed up.	This is an ongoing matter and is subject to daily activity as well as timed, frequent reviews of the overall provision of security. In addition any potential weak spots are researched and suitable guidance given to the Council. The "For your eyes only" training package on security is available and being heavily promoted. Deadline of 27/3/09 for all staff to have completed.	Paul Fleming	09 Nov 2009

ABERDEEN CITY COUNCIL

COMMITTEE	AUDIT and RISK
DATE	8 June 2010
DIRECTOR	Annette Bruton
TITLE OF REPORT	Delay in completion of Walker Road School – Refurbishment Programme
REPORT NUMBER:	ECS/10/060

1. PURPOSE OF REPORT

Internal Audit Report RM-RDD/CT/0802 requested that the Education, Culture and Sport Service, submit a report to Committee advising them on the reasons for the delay in completing the contract regarding the refurbishment of Walker Road School and the additional cost incurred.

2. RECOMMENDATION(S)

The Committee is asked to note:

- the reasons for the delay;
- the procedures which have been established to ensure further delays of this nature are duly notified to the appropriate committee as per ACC Standing Orders.

3. FINANCIAL IMPLICATIONS

An additional payment of approximately £147 000 was paid to the contractor for Section 4 of the work. These costs although included in the original contract number they were part of the Schools Estate Strategy following the closure of Victoria Road School.

4. SERVICE & COMMUNITY IMPACT

An effective Internal Audit Service is seen as critical to the delivery of good Services to the community and is a vital element of good governance.

There are no direct links to the Community Plan, the Single Outcome Agreement and Vibrant, Dynamic & Forward Looking, or the Equalities & Human Rights Impact Assessment.

5. OTHER IMPLICATIONS

There will be a staffing and training resource allocated to support the monitoring and co-ordination of all future building programmes to ensure compliance with previously recommended course of actions. This will ensure that all staff are made fully aware of the requirement to submit a report to Committee if a delay of three or more months in the estimated completion of the contract is probable. (ACC Standing Order 45 (6i)).

6. REPORT

Walker Road Primary School

Following the Torry Schools Review (2003/2004) and the decision to close Torry Nursery School and relocate provision to the 3 primary schools in Torry, work was undertaken to refurbish the 2 storey block in Walker Road School. In the course of this work in 2005/2006, disturbed asbestos was discovered in the substructure.

The pupils and the staff were immediately relocated to Victoria Road School and Torry Academy. The nursery classes remained in the Oscar Road building where they had been located since the start of the 2005/2006 school session.

Proposals were developed to deal with the asbestos in a managed way and this was agreed by the Education and Leisure Committee on 16th January 2006.

Walker Road Primary School (Contract 6380) was awarded with a **Start Date of 16 October 2006** and a **Completion Date of 21 December 2007**

During the contractual period there were 4 significant aspects of the work which delayed the programme of work resulting in a final completion date of **15 August 2008**.

Section 1 (delay of 10 Weeks)

Significant areas of unreported asbestos found during asbestos removal, including a considerable amount of asbestos from previous removal contracts dumped in basement. H&S Executive were called in and an investigation started. The contractor was instructed to remove the asbestos and separate the asbestos of the previous contract as part of the H&SE investigations. Extension of time was awarded as result of the additional work

Revised Completion Date: 14 April 2007

Section 2 (delay of 28 Weeks, including initial Section 1 delay)

The addition asbestos removal works delayed the internal demolition work in Section 2. During demolition work the structural engineer inspected the existing

flat roof and roof supports and noted their poor condition. A specialist company was brought in to carry out a survey of the concrete and prepare a report on remedial works. Because of initial concerns that the roof might have to be removed completely the Contractor was instructed not to proceed with the tower works as this would have impeded works on the roof. Extensive concrete repairs were agreed which negated the need to remove the roof. During the demolition works it was also discovered that the first floor was an early concrete rib deck on steel. The structural engineer's original design was based on an intermediate timber floor as shown on the only drawing we had of the building. His design had allowed for the timber joists remaining and restraining the building while the new steel was erected, without the timber joists the structural engineer required temporary support to stabilise the building, a façade retention system was chosen on the north wall as the wall had no foundations and was three storey's high. The structural engineer redesigned the steel taking into account the condition of the flat roof and that the steel couldn't be installed in one phase, this included underpinning the north wall.

Revised Completion date of 14 March 2008.

The façade retention remained in place until such time as the structural engineer agreed it could be removed. This resulted in further delays to starting the tower works as the façade retention was occupying the space the tower was to go.

Revised Completion date 27 June 2008.

The school requested additional work within the nursery block, interactive white boards, pin boards, close to the end of Section 2 so the contractor was awarded a further extension.

Revised Completion date 04 July 2008.

Section 3 (This did not impact on completion date)

Remove existing boiler plant and replace with new condensing boilers. The contractor was delayed getting access into school as the boilers were sited in the main school and as pupils and staff were now back working in that part of the building the work could only be undertaken during the summer holiday. **Start Date of 10 July 2008 and a Completion Date of 2 August 2008**

Section 4 (Additional Works to Contract for School Estate Strategy Works 6 weeks)

The school estate strategy closure of Victoria road resulted in a change of use for the ground floor nursery and the Care Commission requested additional works to be carried out. The majority of the works couldn't start on site until the school closed on 04 July 2008 and the contractors programme required 6 weeks from this date. Letter sent to the main contractor asking them to agree to amend the current contract on this basis, the contract variation was agreed. This variation in the contract was agreed at the tender rates of 2006 which enabled the work to be

completed in time for all pupils to begin in the newly refurbished school at the start of the new session. As building cost had escalated in the two years since the original tender this was in the best interest of the programme. **Start date 2 June 2008 and a Completion Date of 15 August 2008**

The extension of time claims were passed to a specialist in contractual claims, GMS Contract Services, for their comments and advice. Their advice was used to determining the claims by the contractor and fixing the new revised completion dates. **Practical Completion 15 August 20**

7. REPORT AUTHOR DETAILS

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8. BACKGROUND PAPERS

Minute of Education and Leisure Committee meeting – 16 January 2006
'Remedial work – Walker Road School Building'

Minute of Resources Management Committee – 7 February 2006
'Walker Road Remedial Work'

ABERDEEN CITY COUNCIL

COMMITTEE	Audit and Risk
DATE	8 June 2010
REPORT BY:	Head of Finance
TITLE OF REPORT	Bank Reconciliation Progress Report
REPORT NUMBER:	CG/10/109

1. **PURPOSE OF REPORT**

- 1.1 To update Committee, as instructed, on progress to date in relation to the Bank Reconciliation process and the implementation of an automatic Bank Reconciliation process.

2. **RECOMMENDATION(S)**

- 2.1 It is recommended that the Committee:
a) note the current progress on maintaining the bank reconciliations.

3. **FINANCIAL IMPLICATIONS**

- 3.1 The costs of the bank reconciliations team are met from existing budgets in 2010/11, and while the staffing level is enhanced through the use of an employee on a temporary contract the overall costs will be managed within the total sum available for Finance.

4. **SERVICE & COMMUNITY IMPACT**

- 4.1 The impact on Services is that there has been a redesign of new business processes and the implementation of the e-returns (cash receipting) system across the Council (excluding sports centres and facilities) has meant a standardisation of the way in which all Services process their income.
- 4.2 The ICT and Revenues resources, from within Corporate Governance, that have been in place to support this project remain in place in order to continue the development of the system and associated processes.

5. OTHER IMPLICATIONS

- 5.1 The bank reconciliation is a key control and as such it is important to maintain the 'up to date' position reached in order to ensure that transactions are properly and appropriately recorded and accounted for on a timely basis.
- 5.2 The focus is now on maintaining the various reconciliations using the technology in place and improving the reporting arrangements.
- 5.3 The team was located for much of 2009/10 at Summerhill Centre but has, in the last few months, returned to the City Centre and is now based in St Nicholas House.

6. REPORT

Background

- 6.1 The bank reconciliations were brought up to date for inclusion within the Council accounts for 2008/09 and since then have been successfully maintained.
- 6.2 During this time a project manager was taken on to manage the implementation of the automated bank reconciliation module with costs being met from the Corporate Revenue Investment Fund.
- 6.3 Following a successful pilot project that focused on one bank account the roll-out to all bank accounts commenced in October 2009 and the most complex account – the Council's General Account – went live in February 2010.

Progress

- 6.4 This report follows on from the update provided to the Audit and Risk Committee at its meeting of 27 April 2010.
- 6.5 Since then there continues to be good progress in relation to the bank reconciliation, with continuing timely and robust clearance of items from the reconciliation.
- 6.6 As at the time of writing the preparation for a comprehensive year end report on the reconciliations as at 31 March 2010 is being finalised and final ledger entries are being made.
- 6.6 The daily tasks in relation to the maintenance of the automated bank reconciliation module continue to be processed by the staff in the team and there is also a manual reconciliation of the income from sports centres across the Council.

- 6.7 Due to career advancement within the Council one of the team left in early May and the Finance team have immediately re-arranged the workload of others, as well as making use of a member of staff provided by the Corporate Income / Debt Manager. This additional resource has been secured until the end of June 2010.

Next Steps

- 6.8 The next steps are to continue the daily routine of reconciling the various accounts, resolving any day to day issues that arise, including the support to e-returns users.
- 6.9 There is then the regular review of processes and the system to ensure that technical improvements can continue to be made to system set up. In order to maintain this focus there remains an operational group, chaired by the Corporate Accounting Manager that meets regularly with the objective of delivering the identified improvements.
- 6.10 During May 2010 internal audit has carried out an audit of the bank reconciliations and a draft report is imminent, which will, once finalised, inform external audit and allow them to determine the level of reliance they can place upon the process.
- 6.11 A further progress report will be prepared for the next meeting of the Audit and Risk Committee.

7. **REPORT AUTHOR DETAILS**

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8. **BACKGROUND PAPERS**

None

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Aberdeen City Council
Internal Audit Outsourced Activity
Progress Report
DRAFT

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Section 1 – Introduction

Background

- 1.01 The assurance you receive through the internal audit programme is a key component of your overall governance framework, ultimately reflected in the Statement on Internal Control. Whilst this assurance is of the utmost importance, internal audit should also add value for the future. The purpose of this report is to highlight the key findings arising from the Internal Audit work completed by PwC.

Outsourced Internal Audit Activity

- 1.02 During February, March and April 2010 we conducted several internal audit reviews as part of our outsourced internal audit activity. We identified a number of areas of immediate priority and also identified a number of key areas where we feel we can complement the existing in-house team through provision of ongoing support. Our overall approach to internal audit is to deliver challenge and support across the continuum from value protection (where we primarily provide assurance by protecting the current position) and value enhancement (where we add value for the future with forward looking reviews).

Completed reviews

- Housing Capital and Repairs Budget (Housing and Environment Directorate);
- Internal Management Information (Housing and Environment Directorate); and
- Risk Management (Council wide).

In-progress

- Waste Management (Housing and Environment Directorate).
- Information Security
- Project Management (Council wide).

Reports Presented for Audit Committee Consideration

- 1.03 The reports presented for consideration by the Audit Committee are noted below. The key findings of each report have been summarised in Sections 2 - 4. Full copies of all reports can be provided to members on request.

Finalised Reporting to June 2010 Audit Committee

Section	Review Title
2	Housing Capital and Repairs Budget Management
3	Internal Management Information
4	Risk Management

Section 2 – Housing Capital and Repairs Budget

Number of Recommendations				
Critical	High	Medium	Low	Total
-	1	10	1	12

Background

- 2.01 Aberdeen City Council (ACC) is the 4th largest local authority landlord in Scotland, currently managing around 23,000 homes and has the 5th largest Housing Revenue Account budget in Scotland (2009/10: £68.6m). Unlike other city local authorities (Edinburgh or Glasgow for example) there has been no stock transfer to housing associations. Housing stock currently comprises a diverse range of house types from multi-storey flats to sheltered housing.
- 2.02 The Housing Capital and Housing Repairs teams were aligned in July 2008 as part of the wider organisational restructuring within Aberdeen City Council. The restructuring of Housing has seen a move from 3 separate housing capital and repairs teams (former North, Central, South structure) to one consolidated, Aberdeen City-wide, function.
- 2.03 Unlike the old structure, both the capital and repairs teams come together under one Head of Service and one Corporate Director. We acknowledge that the revised structure should enact positive change both in efficiency and effectiveness of working practices.

Approach and Scope

- 2.04 Our approach considered the information provided as part of the Repairs Budgeting and reporting to understand whether Management have the appropriate information to allow them to make informed decisions on the Capital Planning / cost avoidance for existing and planned Housing stock. The primary focus of this review was to assess:
- The accuracy and fitness for purpose of current reporting on repairs expenditure (including trend analysis);
 - The linkage between capital spend and repairs cost avoidance;
 - The decision making process for a sample of capital projects; and
 - The current contracting strategy with consideration of the Value for Money derived from this approach.

- 2.05 Our approach included interviews with management, staff and review of key documentation.

Summary of Findings

- 2.06 Overall, our review highlighted that the recent restructuring of the Housing Team should facilitate further improvements to the setting and management of the Housing Repairs and Housing Capital budgets, and support the achievement of Best Value.
- 2.07 Good progress has already been made in the development and use of the Consillium system, together with changes in working practices and terms and conditions of employment which is effectively contributing to the productivity and profitability of the business.

- 2.08 The team have been presented with a number of significant challenges in terms data quality in establishing SHQS priorities. Appropriate decisions have been made and effective workarounds implemented, where practicable.
- 2.09 Based on the work undertaken during our review we identified the following as key areas which could inform further improvement activity.

Accuracy of Housing Repairs Budget Forecast

- 2.10 Best practice guidance suggests that the ratio of planned to reactive maintenance is a good indicator of the effectiveness of a council's maintenance regime. A 60:40 split – or better – of planned to reactive maintenance is an accepted indicator of good practice.
- 2.11 In 2009/10 ACC's budget was set with a 58% planned and 42% maintenance; however the projected outturn for this budget (as at December 2009) shows a 50:50 split. In addition at the time of our review (February 2010) the 2009/10 budget spend versus projected outturn by budget highlighted large variances between the two, ranging from projected overruns of £900k to underspends of £1.3m. In addition, the HRA budget approved in February 2010 for the following 3 years suggests a 50/50 budget split.
- 2.12 Currently, planned maintenance is based on a cyclical basis of works and partly on reactive requests that come into the Council rather than on an asset management basis.

Recommendations

- Whilst pre-empting responsive repairs with an appropriate planned repair strategy is the ideal: we acknowledge that there will always be, however, a responsive repair demand. Audit Commission best practice guidance on an integrated capital and planned maintenance strategy recommends the implementation of a planned maintenance strategy. This approach should use information from stock condition surveys and trends within the responsive repairs spend to prepare a programme of component lifecycle renewals. **(Medium)**.
- The link between responsive, planned repairs and Capital Improvements also needs to be matched with close working and communication at an operational level (between the Repairs and Capital Teams), to help to reduce responsive repairs orders. **(Low)**.

Housing Management Systems

- 2.13 On an annual basis information from the capital programme is passed to repairs. This details the planned programme of works at that point in time, including the address and type of works to be conducted. Whilst this information is sent to repairs (with a view to informing repairs works) it is not currently disseminated to the wider team as it is deemed to be too cumbersome.
- 2.14 Currently no link exists between the housing management systems: the Asset Register (Codeman) and the Repairs system (Consillium) and since the information provided by capital is not disseminated, repairs can often be instigated where renewal of that particular element of the building is to be delivered through a capital works contract in the near future.
- 2.15 Consideration should be given to establishing an interface between the Consillium and TotalRepairs systems. In the interim period, a review should be undertaken of the information which could be shared by the capital and repairs teams. Communication between the two teams could be strengthened to ensure that the benefits of any information shared between the 2 sources can be maximised.

Recharges for defective works

- 2.16 The Council has agreed to provide the repairs service for any defects arising from capital works by a third party contractor where the defect arises out of hours (for customer satisfaction) and where an element of tenant safety is at risk (for example secure entry). These costs should be recharged to the contractor if the capital works were performed in the past year. However discussions with staff revealed that few instances where such a recharge has been made, citing inadequate access to information from capital teams. The housing repairs budget will therefore reflect this cost, rather than it being recharged to the contractor.

Recommendation (Medium)

Improved communications between the housing capital and housing repairs team should be taken forward as this will improve the level of information available to repairs in order to identify potential recharges to contractors. Recharges should also be monitored on a monthly basis to ensure that call centre staff are adhering to prescribed procedures. The Council should review all significant capital works provided to housing stock in the prior year as recovery of revenue from the contractor may still be made.

Business Plan and Budget Monitoring

- 2.17 The capital budget for the year is driven by the HRA Business Plan, created by CIPFA and members of the in-house Finance team, which forecasts income, expenditure, investment and borrowing needs for a 30 year business planning period. There are a number of key assumptions within the model that must be managed in order to make sure that the model operates effectively. Our review highlighted that there is a lack of internal ownership of the Housing Revenue Account business model.
- 2.18 Our review has also highlighted that there is insufficient budget scrutiny to ensure that both the capital and repairs budget stay on track. Currently there are no formal meetings that take place between finance and repairs or finance and capital.

Recommendation (Medium)

Strategic Accounting skills are required to support both Housing Capital and Housing Repairs functions. This support will be beneficial in aiding the integration of housing and capital as they move towards an asset management and planned maintenance approach to housing stock.

Capital Budget Spend

- 2.19 Whilst the capital budget has been re-profiled to reflect current strategy, it currently contains 58 budget lines. This level of detail has resulted in the need for budget virements between budget lines in 2008/09 of £9.6m and as at January 2010, £6.5m for the year to date.
- 2.20 In addition, as at 31 December 2009 only £35.75m of the approved capital budget had been spent with £48.5m committed, leaving a £13.25m capital allocation unspent. This position mirrors that of the preceding years where the capital allocation was not spent in full.

Recommendation (Medium)

Closer scrutiny and monitoring of the capital budget management is required to ensure that the delays in terms of delivery of the capital programme are not impacting upon service or performance commitments against which the Council will be measured.

Capital Plan Preparation

- 2.21 At the time of our review, the preparation of the Capital Plan did not fully take into consideration the actual condition of the stock at that time. In addition, the Capital Plan does not consider any planned repairs for the year (from repairs side) as this information is not made readily available. Currently information that is passed from repairs to capital is limited to door replacement and smoke detector fitting. However the information provided is not comprehensive enough to allow the capital team to update the asset register (i.e. there is no specification attached to this). In addition, whilst the capital team have read-only access to the repairs system, this is used to inform customer queries they receive rather than inform the capital plan.
- 2.22 Our review also highlighted that some properties are excluded from the Capital plan at present as there are no technical specification drawings available – which are necessary to inform the contractor of the layout of property, for example for kitchens and bathrooms modernisation – for a total of 8,500 properties.

Recommendation (High)

The Council should draw up capital plans based on a balanced view of the condition of the stock, the lifecycle of the asset to be replaced and the last replacement date. An asset management approach should be considered for managing the capital investment, an approach championed by the Scottish Housing Regulator and Audit Scotland. The Council should also take action to survey the stock which does not currently have technical drawings.

Internal Communication

- 2.23 We reviewed the process for preparing the capital plan for kitchens and bathrooms modernisation, window replacements and heating upgrades. This highlighted that completeness of information issues arising in fixed asset system as a result of internal communication issues. For example, when the windows replacement programme was set for 2009/10, the

technical team highlighted 68 properties included in the list prepared by the Capital team that had already been replaced. This information had not been communicated to the Capital team – responsible for maintaining the asset register.

Recommendation (Medium)

Improved communication between the capital team and the construction consultancy team is required to ensure that asset information recorded centrally (on Codeman) is kept up to date.

Capital Plan Approval

- 2.24 The detailed Capital plan is approved by the Housing and Environment Committee for the coming fiscal year alongside an indicative spend for the following 2 years. The capital team currently prepare a one year "program" of activity which details the type of capital works to be carried out on individual addresses. The Council aims to prepare address lists for the full 3 years. However at the time of our review (February 2010) the 2010/11 address list was still to be finalised and the 2011/12 and 2012/13 plans were in their infancy. Delays in the preparation of the capital plan means contracts cannot be arranged (for new) and programmes of work cannot be passed to the contractor (for existing).

Recommendation (Medium)

The Capital team should ensure that address lists are pulled together as far in advance as possible, i.e. to mirror the approval of the capital budget.

Asset Management and Options Appraisal Model

- 2.25 The Council contracted CIPFA in 2008 to assist in the revision of their Asset Management Model. This model is a tool which can be used to inform capital investment decisions (on a traffic light system) as it identifies poorly performing areas but also provides an analysis of the drivers behind the identified poor performance by grading each unit of Council stock in terms of ability to generate cash flow over a 10 year period and long term sustainability.
- 2.26 In addition, the Council also contracted CIPFA to expand on the Asset Management Model in the creation of an Options Appraisal Methodology. This work is the logical next step in providing guidance on how capital projects should be treated in terms of ensuring that all capital investment decisions were underpinned by robust option appraisal methodology. Neither model is currently employed by the department.

Recommendation (Medium)

The asset management model should be utilised to inform capital investment decisions. The principles and outputs of the model should be considered in the context of physical and financial constraints and also the demands of meeting the SHQS standard.

This will better inform the long term decision making of capital investment within the capital plan. The use of this model should be coupled with the Option Appraisal Methodology prepared by CIPFA.

Contracting Strategy

- 2.27 ACC's current contracting strategy is at present unclear: there are a variety of contract types in place: short, term and framework, but there is no set approach for selection of contract types. The implementation of the framework contract, for example, was initiated as a result of an external advisor performing an options appraisal exercise.
- 2.28 In addition, the Council do not currently have a long term contract in place for the delivery of heating replacement works. The Council faced a

legal challenge to the award of the heating framework tender previously and have been unable to proceed.

- 2.29 Our review of the capital budget planning process also revealed that there is often a tight turnaround time for contracts to be arranged by the in-house team, as a result of the 1-year capital plan lead in time. This causes increased pressure for the market to adequately respond to tender requests, for example if sub-contracting is required.

Recommendation (Medium)

The Council should establish a clear strategy for procuring housing capital contracts. This strategy should consider:

- Works to be conducted in house or by external contractors;
- The means by which works should be tendered (cost or quality price);
- The preferred type of contract (long or short term, framework or term contracts and so on);
- The methods by which potential contracts are identified (i.e. continued use of the central contracts database: Construction Line); and
- The lead in time for tendering (i.e. the minimum notice period required by capital so that procedures can be followed and the market have sufficient time to respond)

- 2.30 In order to foster appropriate procurement skills with the in house technical team, there should be closer links with the central procurement function so that procurement expertise can be shared. This will ensure that the Council are consistently achieving efficiency and effectiveness within existing staffing levels and provide sustainability to the contractor base available to the Council.

Contract Management

- 2.31 Long term capital contracts, such as term and framework contracts, should be monitored by the Construction Consultancy Team. This monitoring should include amongst other things monthly update meetings with the contractor and regular review of the KPIs stipulated within the contract. Discussions with staff revealed that neither of these monitoring mechanisms are currently carried out as a result of staffing issues.
- 2.32 A number of issues have arisen with the performance of the framework contracts in recent periods. Customer complaints have been well publicised and the value for money that these contracts offer have been called into question. The negotiations with the contractors are currently in place to identify if rates can be lowered by the Council; these negotiations are currently being undertaken by the Head of Service and the Architect managing the contract.

Recommendation (Medium)

Closer liaison with the central procurement team is required to ensure that value for money is being derived from contracts. More robust monitoring of these contracts is required and advice should be sought from the central team as the best way to take contract management forward.

Section 3 – Internal Management Information

Critical	High	Medium	Low	Total
-	-	5	6	11

Background

- 3.01 The Corporate Directors are individually accountable for the performance of their Directorate. The performance management process implemented across the Council should support the Corporate Directors to monitor service delivery, ensure that staff are focused on achievement of key objectives and that performance is managed appropriately. The process also provides a means for monitoring continuous improvement and demonstrating service effectiveness.
- 3.02 Housing and Environment have recently been restructured into one Directorate. The restructuring programme was underway during the period of our review with the appointment of the Heads of Service roles, amalgamation of other posts and the development of the combined Service Plan and Business Plan ongoing.

3.03 Work was also ongoing to review the performance management framework to ensure consistency across each Service. As part of the restructuring project, a number of services such as Waste Management and Waste Disposal are in the process of being transferred over to the Head of Service for Environment and a review of performance indicators (PIs) within the Environment Service has led to the development of a number of new PIs.

3.04 Our review has assessed the processes supporting the performance management framework within the Housing and Environment Directorate as at February 2010. In presenting our findings we would acknowledge that plans are already in place to make improvements to existing arrangements as part of the restructuring programme.

Approach and Scope

- 3.05 This review assessed the processes for the reporting of management information within the Housing and Environment Directorate. In particular our review focused on the following:
- Establishing Performance Indicators (PI) that are fit for purpose;
 - Establishing appropriate targets for each PI; and
 - Ensuring that there is a robust reporting framework in place.

Summary of Findings

- 3.06 Overall significant progress has been made towards the implementation of an improved internal performance management system: Covalent. The use of Covalent has led to the streamlining of performance documentation and reporting across the newly formed Directorate. Our review has identified a number of areas of good practice and also highlighted where there are currently plans in place to improve the performance management framework as part of the Directorate restructuring project. Our recommendations have focused on making further suggested improvements to existing reporting and documentation standards as well as identifying areas of focus to ensure Housing and Environment indicators are complete and relevant to monitoring overall Service and Corporate Objectives.

Formalised Performance Indicator (PI) Timetable

- 3.07 Our review highlighted that whilst there is an annual process to review the performance indicators for each Directorate, there is however no formal timetable for 2010/11 that specifies dates for review and approval of performance indicators for the Directorate by the Corporate Management Team and Housing and Environment Committee.

Recommendation (Medium)

A timetable outlining the Performance Indicator process and deadlines should be developed and communicated to all relevant employees. The timetable should be in line with the Committee cycle to ensure there is timely reporting of performance linked to the risk management and finance reporting processes. The dates for when data should be input into Covalent, prepared for draft submission to Committee and reviewed by Committee should be included as well as the target date for approval for 2010/11 performance indicators.

SPI monitoring

- 3.08 Each Statutory Performance Indicator (SPI) assigned to Housing and Environment should be included within the Directorate's performance indicators on Covalent. These will be monitored by SMT on a monthly basis and reported to Housing and Environment Committee if required. We noted as part of our review that the SPIs relating to the Scottish Housing Quality Standard (SHQS) and Trading Standards were not included within the Directorate's indicator list on Covalent and were not being reported to either the Directorate Management Team or Committee.

Recommendation (Medium)

The Trading Standard indicator has been added recently to Covalent but no data has been input or reported on. SHQS and Trading Standard SPIs should be reported to and monitored by the Housing and Environment Committee and Housing and Environment Directorate Management Team in the same way as the other SPI performance indicators.

Quality and customer focused performance indicators

- 3.09 From a review of the full listing of PIs and discussion with management we identified the performance management framework should have a greater focus on service quality and customer satisfaction. Management are in agreement that more work is required to implement performance indicators to drive quality improvements and there are a number of projects to collate customer feedback through City Wide residents' survey (albeit only carried out once to-date), City Voice, one off departmental surveys and other projects. However this data does not directly feed into the performance management process to assess and monitor performance on a continuous basis.

Recommendation (Medium)

Each Directorate and Service should develop performance indicators which monitor and measure quality of service and customer satisfaction on at least an annual basis. These should be developed with reference to the Customer Feedback Strategy and with the assistance of the Performance Management and Quality Assurance Team, where necessary. Heads of Services should also consider what feedback is required from customers to inform the measurement of the quality of service provision. The Council should ensure that the City-wide residents' survey is performed bi-annually.

Department overlaps in providing combined Council services.

- 3.10 Inherent to the Council's organisational structure - a number of services are provided by a combination of departments from across the Housing and Environment Directorate. For example, rent management, homelessness and the city warden service. Through discussions with staff we identified that increased communication is required between Heads of Service to clarify roles and responsibilities for performance of such services. Although services are collectively working towards the Council's overall objectives, managers will set and monitor their own performance as an individual unit. For example, Community Safety and Environment departments were both monitoring the same performance indicator on City Wardens without knowledge of what the other was doing.

Recommendation (Medium)

A review should be carried out in a similar format to Void Stat of key services where performance is impacted by a number of departments. The purpose of this review should be to map service provision and ensure that there is a clear agreement on responsibilities across each Head of Service for each stage of the process and achievement of corresponding performance levels.

Level of performance reporting

- 3.11 We reviewed the list of indicators reported at SMT and Committee and held discussions with members of each group to determine the suitability of performance information provided at each meeting. At the moment, Committee receive detailed information every cycle but best practice would dictate that the level of detailed reporting be reduced to ensure that the Elected Members have the relevant information for an appropriate level of challenge. By reporting on a 6-weekly basis, the emphasis is less on holding officers accountable for long-term performance and more focus on the short-term. From discussions with senior management, they have found it more effective to submit detailed one off reports on services such as Homelessness rather than just an increased list of PIs as this provides Elected Members with background information on service provision to add context to PI results.

Recommendation (Medium)

Consultation between Elected Members and Senior Management should take place to agree on a more suitable reporting timetable and what performance information should be provided. We are aware of the plans to increase the Committee cycle to eight weeks. Elected Members should also be consulted fully on what indicators they require updates on and where additional reports such as the one prepared for Homelessness can be used to inform the scrutiny of indicator information. We would also recommend that a review be carried out on the reporting of indicators at CMT level to ensure that they reflect the key priorities in the combined Service Plan.

Section 4 – Risk Management

Number of Recommendations				
Critical	High	Medium	Low	Total
-	-	9	2	11

Background

- 4.01 Given the significant challenges facing the Council this review has provided an independent challenge of the adequacy of the risk management arrangements as they currently apply. The implementation of effective and robust risk management arrangements will be particularly important for maintaining continuity of services during a period of change in terms of organisational structure, appointment of staff to new posts and implementation and delivery of key projects.

Approach and Scope

- 4.02 We undertook an independent review to assess the effectiveness of the risk management arrangements and processes for identifying, assessing, and prioritising risk. We also considered the extent to which risk management informs the coordination and economical application of resources to deliver key service objectives and prioritises and minimise, monitor, and control the likelihood and impact of events impacting upon Council operations. Specifically we considered:

- The adequacy of existing policies and procedures in relation to risk;
- The process for risk identification and measurement across the Corporate and Service Registers;
- The process for the regular reporting of risk; and
- Consideration of whether robust action plans exist in order to mitigate risk.

- 4.03 Our review assessed the processes risk management on both a corporate and service level considering the progress to date as well as the areas of improvement or rolling out of best practice Council wide. We held meetings with Corporate Management Team (CMT) representatives and a sample of risk owners from each Service. Meetings were also held with the Service Operational Support Managers, Risk Co-ordinator and External Consultant support.

Summary of Findings

4.04 We recognise that improvements to the risk management process have been made over the past 18 months and the Service registers for Education, Culture & Sport and Social Care and Wellbeing are close to completion. Our review has highlighted a number of areas for development which would improve the identification, mitigation and management of risks including:

Corporate Risk Register

4.05 From a review of the risks on the Corporate register, we noted the following areas where improvements could be made:

- Increased consideration of the impact of external risks on the Council;
- Potential exclusion of risks specific to the delivery of the interim business plan;
- Risks not formally linked to corporate objectives;
- Number of risks excessive for corporate register (38 at the time of our review);
- Register is reviewed in isolation to other processes such as performance management and corporate plans.

Recommendation (Medium)

The corporate risk register should be reviewed by the CMT and consideration be given to best practice:

- Reduce the number of risks (best practice 15-20);
- Identify external risks to the Council;
- Align risks to corporate objectives; and
- Formally reviewing the register as part of the annual timetable of corporate plan updates, budgetary assessment and performance management reporting.

4.06 We recognise that since our review, an annual timetable for review is now in place. We also note that Committee agreement has been obtained to link the reporting of risks with performance, actions and budgeting.

Service Risk Registers

4.07 From a review of Service risk registers and discussions with management we have identified the following areas for improvement:

- No categorising of risks to ensure all relevant service risks are identified;
- Replication of similar or identical risks for each team on the service register;
- Actions are not consistently linked to service and team plans;
- Service registers are reviewed in isolation to other processes such as performance management and corporate plans; and
- Risk updates are not provided to the service Committees.

Recommendation (Medium)

The service risk registers should be reviewed by the SMT and consideration be given to the following best practice:

- Amalgamate similar risks on each register into one high level risk with sub risks for each team;
- Align risks to service objectives;
- Formally review the registers as part of the annual timetable of delivery plan updates, budgetary assessment and performance management;
- Categorise risks and identify additional risks going forward; and
- Provide risk updates to Elected Members on each service Committee as part of the reporting of performance management.

4.08 We recognise that since our review, action has been agreed on all of the above recommendations and work has already commenced on their implementation.

Linkage of Corporate and Service risk registers

- 4.09 From a review of the Risk Management Manual and discussions with staff, we identified that the procedure for the escalation of risks between registers is not clear.

Recommendation (Medium)

Formal guidance should be developed and communicated to management which states the circumstances under which risk should be escalated and how this should be achieved. This should be supported by the proposed changes to the reporting timetable to ensure risks can be escalated or de-escalated to/from the corporate and service risk registers on a timely basis. We acknowledge that discussion is ongoing to change the quarterly reporting dates for corporate and service registers.

Risk Management responsibilities

- 4.10 At the time of our review, there were inconsistent arrangements for allocating responsibilities within each service for risk management. Furthermore, the role of Risk Manager is currently part of the Financial Services Manager job description and the external consultant's appointment is on a temporary basis until service registers are in place. We acknowledge that plans are still to be finalised on the risk support function going forward.

Recommendation (Medium)

The Council should consider the following allocation of responsibilities with regard to establishing an appropriate structure to support the implementation and embedment of risk management on a consistent basis:

- Risk Manager – responsible for assisting with the Corporate risk register and promoting, supporting and overseeing of the risk strategy across the Council. Full risk management training should be provided on an ongoing basis to ensure they are up-to-date on developments within the industry (such as the Institute of Risk Management and ALARM).
- Risk Champions – appointment of fully trained risk “champions” within each team who will oversee and provide support on risk issues.
- Risk Management Group – made up of Risk Champions and Risk Manager who would meet quarterly to discuss corporate and service risk management and promote the sharing of best practice.

Accountability and review of risks

- 4.11 From discussions with staff we identified that some teams do not fully appreciate the benefit or the value of maintaining their registers. This is evidenced by the number of risk owners not updating risks on Covalent. Staff commented that they have not been consistently challenged or held accountable for their assigned risks once reported via Covalent. A number of reminders are also sent by Operational Support Managers within each service to update registers.

Recommendation (Medium)

- The Council should implement a consistent approach to the review and accountability for risk mitigation.
- We would recommend the following good practice which is already in place within certain of the services in the Council:
 - Risk management should be included as a CMT standing agenda item and a meeting dedicated every quarter to review the risk register;
 - Risk management should be included as a SMT standing agenda item and a meeting dedicated every quarter to review the register which coincides with the reporting timetable; and
 - Risk management should be added as a standing item in the Heads of Service one-to-ones with their managers alongside performance management.

- 4.12 Note, that since our review we recognise there has been the appointment of a new Performance, Audit and Risk Manager who will provide a co-ordination and oversight role to supporting the above recommendation.

Training of Elected Members

- 4.13 The Vice Convenor and Convenor of the Audit and Risk Committee have recently received risk management training as the Committee now receive bi-annual updates on the Corporate register. However there were no formal plans at the time of our review to provide risk management training to the remaining Audit and Risk Elected Members.

Recommendation (Medium)

As part of best practice, the remaining Elected Members of the Audit and Risk Committee should receive training on risk management already provided to the Convenor and Vice Convenor. If risk management updates are submitted to Service Committees, the Elected Members of the Service Committees should also receive risk management training.

Completeness of risk registers

- 4.14 From a review of the corporate and service risk registers, we noted that the critical success factors for a number of risks have not been added or are marked as “No action”. We also identified that actions do not always follow the SMART principle (specific, measurable, achievable, relevant and time bound). Actions are not consistently clear on who should be completing, at what cost and by what deadline. The registers for Education, Culture & Sport and Social Care & Wellbeing are at the final stages of completion. Risks have been identified by each Service but approval is required by the SMT once each risk has been assigned and rated.

Recommendation (Medium)

The SMART principle for documenting actions should be communicated to staff as well as ensuring actions link directly to service and corporate objectives. Staff should be reminded to update all critical factors and actions on a regular basis. The Education, Culture & Sport and Social Care & Wellbeing Registers should be completed as soon as possible and approved by the SMT as planned.

Assignment of risks

- 4.15 From discussions with managers we identified that service risk registers are not always communicated to staff and some risk owners are not aware of all the risks assigned to them.

Recommendation (Medium)

Management should ensure all employees are aware of all risks assigned to them and there is formal agreement that they will manage these risks and provide updates to senior management. Where possible, risks should be additionally assigned to third tier managers in addition to heads of service to ensure that they are being managed on a day-to-day basis during the restructuring period. Consideration should be given to including risk management responsibilities within job descriptions. This has been identified as best practice by industry standards.

Project Management Risk Registers

- 4.16 The Project Management Guidance stipulates that risk registers should be developed for each project. However staff confirmed that registers are not always put in place for all projects. We also note that there were no existing risks for 3Rs on the Education, Culture and Sport register and Marischal College on the Enterprise, Planning and Infrastructure register at the time of our review

Recommendation (Medium)

Management should seek to raise the awareness of project risk registers and promote their importance within the project management process. Additional guidance should also be provided for the escalation procedures of project risks to the relevant service and corporate registers to ensure significant risks associated are identified at the appropriate reporting level.

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ABERDEEN CITY COUNCIL - INTERNAL AUDIT

MANAGEMENT STATEMENT ON INTERNAL AUDIT

TITLE : Risk Management

STATEMENT

The Directorate is pleased that the audit recognises the progress and improvements which have been made over the past 18 months. Further progress has been made since the audit fieldwork and a number of the issues raised by the auditors were already being implemented. Specifically, recent improvements over the last few months include:-

- Cross-referencing of Service Risk Registers to identify actions for Service Business Plan;
- Categorizing risks in line with Accounts Commission guidance as professional, financial, legal, physical, contractual, technological, environmental;
- As mentioned above, the agreement of the Corporate Policy & Performance Committee to put in place a single performance reporting model including quarterly reporting to each service committee of PIs, actions, budgets and risks;
- Quarterly monitoring of risks by the Corporate Management Team and Services' Senior Management Teams;
- Inclusion of risk in 1-2-1 line management meetings;
- The completion of all Service Risk Registers;
- Work on revised competencies for managers which specifically include risk management.

The audit does highlight areas where further development is required and these improvements will form the basis of our improvement plan over the coming year.

CORPORATE DIRECTOR: *Stewart Bennett*

DATE: *29/5/10*

DRAFT

HOUSING AND ENVIRONMENT COMMITTEE

25 May, 2010

REFURBISHMENT OF KEPPLEHILLS GARAGES – H&E/10/065

Reference was made to article 11 of the minute of meeting of the former Community Services Committee of 15 November, 2005, at which time it was agreed that the demolition of 44 garage units and the refurbishment of the remaining 235 lock up garages could proceed. The Committee had before it on this day, a report by the Director of Housing and Environment which updated members on the progress of these works, and advised of problems encountered in relation to phase 3 of the project.

By way of background, the report advised that phases one and two of the project were complete, with 167 garages having been built, and 25 having been demolished. Tenants had returned to their garages and no problems had been encountered during the first two phases.

Phase 3 of the project, in which it was proposed to demolish 89 garages and rebuild 58, covered garages that had not been built in a traditional manner, but that had been built with precast concrete rather than block concrete. This meant that although the internal dimensions were similar, the overall footprint of the garages was less than those in phases one and two.

The report continued that the first 8 of the phase 3 garages had been handed back to tenants on 23 March, 2010, and on 24 March, 2010, officers had received complaints stating that the garages were smaller than they had previously been, and that tenants could not get their car doors to open far enough to exit their cars when in the garage. On inspection, it was found that the width of the garages had indeed decreased from 2440mm to 2300mm, which was a loss of 140mm (approximately 5.5 inches). The report advised that this was due to (a) the failure of a lead officer to respond to a request from the appointed contract administrator to check the proposed layout of the phase three garages which clearly showed the use of 215mm blockwork to reconstruct the internal and gable walls; (b) the use of 215mm wide blocks to rebuild walls which were originally constructed of precast concrete panels; and (c) the garages being rebuilt on the original concrete bases, which meant that when the wider block work was used to construct the new walls, the internal dimensions of the garages was reduced.

The report continued that work was suspended on the garages with the exception of two sites, the first of which had 17 garages that were nearing completion and it was decided to continue in order to ensure they were protected against the weather; and at the second of which demolition had already commenced, so it was decided that work should be completed for health and safety reasons.

The report then presented three costed options for the way forward, namely (1) do nothing with the 25 garages that had been rebuilt to smaller dimensions and cancel works at the remaining sites; (2) do nothing with the 25 garages that had been built to smaller dimensions but complete work at the remaining sites in phase three; and (3) partially replace the gable and internal walls of the 25 garages that had been completed, and complete the works at the remaining sites in phase three.

The Committee intimated their strong disappointment at this situation; and were also concerned at the length of time it had taken for the project to get to this stage, with the original decision having been taken at the aforementioned meeting of the Community Services Committee in 2005, and instructed that the matter be referred to the Audit and Risk Committee in order for a full investigation to be undertaken. At this point the Convener suggested that there may be a requirement for a policy to the effect that if a Committee decision has not been implemented within a set period of time (for example, one year) then a report must be presented to the Committee with an explanation.

The Committee were advised by the Head of Regeneration and Housing Investment that should the suspension of these works continue, that a charge of £178 per week would be made to the Council by the contractor as part of a penalty clause, but that this could be built into the cost of the overall project.

The report recommended:-

- (a) note the content of this report, and
- (b) approve option 3 as detailed within the report (partially replace the gable and internal walls of the 25 garages that had been completed, and completion of the works at the remaining sites in phase three).

The Committee resolved:-

- (i) to approve recommendation (a);
- (ii) to instruct officers to report back at the next meeting providing more clarity on the options set out within the report;
- (iii) to defer any decision to continue until a further investigation is conducted into cost of each garage in phase 3 and whether this is now best value for the Housing Revenue Account;
- (iv) to refer this matter to the Audit and Risk Committee in order for a full investigation to be undertaken; and
- (v) to request that the Chief Executive report to the Corporate Policy and Performance Committee, proposing a policy that would instruct officers to report back to a Committee with an explanation in the circumstance where a Committee decision has not been implemented within a set period of time.

ABERDEEN CITY COUNCIL

COMMITTEE	Housing and Environment Committee
DATE	25 May 2010
DIRECTOR	Pete Leonard
TITLE OF REPORT	Refurbishment of Kepplehills Garages
REPORT NUMBER:	H&E/10/065

1. PURPOSE OF REPORT

1.1 The purpose of this report is to:

- (a) advise members that we have successfully completed phases 1 & 2 of the Kepplehills Garage renewal programme but have encountered problems with the last phase (three) of the Kepplehills Garage project, which is associated with a failure to take account of the different construction types of garages in the programme; which reduced the garage widths by 140mm, or approximately 5.5 inches making it difficult to open car doors once a car is parked in the garage, and
- (b) provide details of the options identified by officers for overcoming these difficulties in phase 3.

2. RECOMMENDATION(S)

2.1 It is recommended that the committee:

- (a) note the content of this report, and
- (b) approve the proposals contained within option 3 of paragraph 6.14 of the report

3. FINANCIAL IMPLICATIONS

- 3.1 In considering the content of this report members should note that the cost of undertaking the works contained in the recommendation will be in the region of £326,500 whilst the cost to the Council if it withdrew from the contract at this stage would be £70,000.
- 3.2 Currently, within the Housing Capital Expenditure budget approved for 2010/11 there is a sum of £150,000 for improvements to the Kepplehills garages. This sum will not be sufficient to cover the cost of the recommended option and a further £176,000 would require to be found from other headings. It is felt this can be achieved as the full sums under some

budget headings such as the Gas Central Heating Replacement have yet to be fully committed due to lengthy lead in to the EU procurement process.

4. SERVICE & COMMUNITY IMPACT

4.1 Aberdeen's City Vision, to be "a city which is vibrant, dynamic, forward looking - an even better place to live and work, where people can expect high-quality services that meet their needs", and the City Council's Vision that "we will be recognised within the city and more widely, as being a leading Council in Northern Europe by 2010". The content of this report links with the following priorities identified within Vibrant, Dynamic and Forward Looking 2007 to 2011

4.2 The contents of the report contribute to the achievement of National Outcome 10 as outlined in the Single Outcome Agreement 2008 to 2011;

1. We live in well designed, sustainable places where we are able to access the amenities and services we need.

5. OTHER IMPLICATIONS

5.1 If the Committee decides not to continue with the full scope of works remaining for this contract then it is likely that the contractor will make a claim for losses incurred which will be in the region of £70,000.

5.2 In addition such a decision is likely to attract further negative media attention.

6. REPORT

6.1 On 15 November 2005 the Community Services committee approved a proposal to carry out the refurbishment and selective demolition of 279 lock up garages in the Kepplehills area. The number of garages increased to 281 following further inspection of garages in Overhills Walk. The attached appendix A shows the current situation with regard to works on all phases of the project.

6.2 Work commenced on the first phase of the project on 29 September 2008. To date, in phases one and two of the work 167 garages have been refurbished and 25 have been demolished. The tenants of the refurbished garages in these phases have returned to them and there have been no difficulties with regard to the internal dimensions of the refurbished garages.

6.3 Phase three of the project which covered the works to the non traditionally built garages proposed the demolition of all 89 garages with only 58 being rebuilt.

6.4 The construction of these garages differed from those in phases 1 and 2 as they were built using precast concrete panels rather than block. This meant that whilst the internal dimensions were similar, the overall footprint of the garages in phase three was less than those in phase one and two.

- 6.5 The cumulative tendered cost of the three phases of work is £1.26 million
- 6.6 The first 8 refurbished garages in phase three were completed on 23 March 2010 and the keys were handed back to the tenants on that date.
- 6.7 On 24 March reports were received from a tenant stating that the garages were now smaller and that whilst they could get their car in to the garage they could not then get the doors open far enough to exit the car.
- 6.8 WA Fairhurst and Partners, the Council's appointed structural engineers for the housing stock, had been acting as the contract administrator on this project and were asked to measure the internal dimensions of the newly rebuilt garages in phase three. When this was done it was found that the width of the garages had been reduced from 2440mm to 2300mm. A loss of 140mm, or approximately 5.5 inches.
- 6.9 It has since been established that the reason for this reduction is due to:
- a) failure of lead officer to respond to a request from the appointed contract administrator to check the proposed layout of the phase three garages which clearly showed the use of 215mm blockwork to reconstruct the internal and gable walls.
 - b) the use of 215mm wide blocks to rebuild walls which were originally constructed of precast concrete panels
 - c) the garages being rebuilt on the original concrete bases. This meant that when the wider block work was used to construct the new walls the internal dimensions of the garages was reduced as stated above.
- 6.10 It is clear that neither the structural engineer nor the contractor are at fault for the error that occurred. The structural engineers had acted in good faith when issuing the tender documentation stating that the garages in question were to be rebuilt using block work as they were not instructed that any amendment was required to the specification used for phases one and two on asking for comment from the Council on the drawings for phase three. Similarly, the contractor, who had not worked on phases one and two, has carried out the work to the specification given to them.
- 6.11 On establishing these facts work was suspended on the remaining sites on phase three where work had not yet started. There were however two sites where rebuilding work to a further 17 garages was nearing completion. These garages will also only be 2300mm wide internally. It was decided that work in the two sites should be completed to ensure that the new garages were properly protected against the weather. These garages will not be handed back to tenants until the outcome of this report is known.
- 6.12 Similarly demolition work had been started on another site in phase three and it was decided that this should be completed for health and safety reasons before the suspension of any further works took place.

6.13 Following suspension of the work an investigation was undertaken to establish what options were open to the Council to:

- a) Rectify the difficulties with the internal dimensions of the rebuilt garages, and
- b) Continue with the work on the remaining sites on phase three whilst ensuring the dimensions of the new garages met those of the old garages.
- c) Cancel any remaining works

6.14 Officers, with the assistance of WA Fairhurst and Partners, have now carried out an option appraisal of the methods open to the Council to resolve this matter. Of the options considered the following were felt to be the most feasible:

1. Do nothing with 25 garages rebuilt to smaller dimensions and cancel work at remaining sites in phase three

Whilst there is no statutory guidance given for the internal dimensions of lock up garages the “New Metric Handbook” is used extensively by design professionals as a reference for space standards. This publication states that the minimum internal width for a domestic garage should be 2.4m.

It is clear that some; if not all of the tenants of the 25 garages in question will have difficulty with a garage of 2.3 m in width. Not resolving this issue would lead to future difficulties in letting these garages in the future.

Cancelling the rebuilding work of the remaining sites in phase three would still result in a cost to the Council, estimated to be £70,000 for loss of profit to the contractor. Additionally it would also leave the Council with a continuing maintenance problem with the garages which will not be refurbished and the need to resite the two tenants who are currently hold tenancies of garages in the demolished site at Wagley Court.

It is not recommended that this option is pursued.

2. Do nothing with 25 garages rebuilt to smaller dimensions but complete works at remaining sites in phase three

Whilst under this option we would be leaving the 25 rebuilt garages as they are we would continue with works in the remaining sites in phase three.

Appendix A shows that there are four sites where any work is yet to commence and one site where only demolition work has been undertaken. Members will note that in each of these sites at least one garage will not be rebuilt. As the number of garages is being reduced on these sites it is possible for the garages to be rebuilt to the original internal width of 2.44m.

The cost for this option would be the remainder of the value of the contract

which is £287,518 Therefore there is no additional capital cost to the Council

Whilst this option may present an opportunity to ensure that the tenants of the garages in the five sites where work is not yet completed are given garages which match the dimensions of the originals it does still leave a number of the tenants of the completed garages with a facility they cannot use. It is therefore not recommended that this option is pursued.

3. Partial replacement of gable and internal walls of the 25 completed garages and completion of works at remaining sites in phase three

The internal walls of the 25 newly built garages could be partially rebuilt using 100mm concrete block panel for the internal walls and 140 or 150 mm concrete block panels for the gable walls. If carried out this would offer revised internal widths of between 2.415m to 2.432m. At worst this would mean the difference in dimensions between the smallest garage width and the original width being 25mm or 1 inch. It is felt that this would provide sufficient internal space for most family cars to be parked in these garages.

This solution would not work in one gable end garage at Holmhead Place because the gable has been rebuilt in fifestone. This was done as the site is extremely tight and the gable wall is too close to the boundary of the site to allow room for workmen to render the newly built wall. In this case the internal width of this garage can only be increased to approximately 2.36m.

The cost for the remedial work to the 25 previously completed garages would be £38,913.

Works on the four sites yet to be completed would be undertaken as in option 2.

The overall cost of this proposal would be £326,431. However, this includes the cost for the already planned work at the four sites yet to commence.

It is recommended that this proposal is approved by committee as it will ensure, as far as possible that the 25 garages which have been completed in phase three to date are altered to ensure their continued future use. It also allows completion of the remaining sites which will reduce the risk of further adverse publicity to the Council in connection with this project.

- 6.14 The contractor has committed to working with us and our structural engineer to consider all steps that can be taken to reduce the final cost of undertaking the remaining work on this project. This will include reconsidering the materials to be used and reprogramming of works.

7. REPORT AUTHOR DETAILS

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8. BACKGROUND PAPERS

Report on Kepplehills Garages submitted to Community Services committee on 15 November 2005.

Exempt information as described in paragraph(s) 1 of Schedule 7A of the Local Government (Scotland) Act 1973.

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