



Aberdeen City Council

Annual Report on the 2013/14 audit

Prepared for the members of Aberdeen City
Council and the Controller of Audit

October 2014



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Key messages

Financial statements

- Unqualified auditor's report on the 2013/14 financial statements.

Financial position

- An underspend of £7.9m against budget.
- Usable reserves have increased from £108.8m to £116.8m.
- The General Fund balance at 31 March 2014 was £57.1m of which £11.3m was unallocated.
- Financial management remains sound with a robust budget setting process based on a 5 year business plan.

Governance & accountability

- New group governance arrangements agreed but not yet fully implemented.
- Systems of internal control operated effectively.
- The council has an effective internal audit function.

Best Value, use of resources & performance

- The council has started to make important developments to its performance management framework by the consideration of a performance dashboard.
- For 2013/14, the council's statutory performance indicators showed improvement in 31% of cases but deterioration in 40%.

Outlook

- The council faces rising demands for services and continued funding pressures alongside managing major capital projects and service reforms. The 5 year business plan identified a funding shortfall of £35m.

Financial Statements

1. We have given an unqualified audit opinion that the financial statements of Aberdeen City Council for 2013/14 give a true and fair view of the state of the affairs of the council and its group as at 31 March 2014 and of the income and expenditure for the year then ended.
2. We have also given an unqualified audit opinion on the 2013/14 financial statements of those charities registered by Aberdeen City Council and audited under the provisions of The Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations).
3. The council recorded an underspend of £7.9m against the revenue budget in the year. This was mainly due to savings arising from the management of staff vacancies.
4. Financial management remains sound with close budget monitoring and regular reporting to members.

Financial position

5. The closing balance at the year end on usable reserves was £116.8m representing an increase of £8m from 2012/13. The total value of the council's earmarked reserves, including the Housing Revenue Account, at 31 March 2014 was £48.5m an increase of 20% from the previous year. The council maintains a free balance of £11.3m which is approximately 2.5% of revenue expenditure.

6. The council's 5 year financial plan to 31 March 2019 identified a cumulative shortfall of £35.1m having taken additional cost pressures of £10m into account. In common with the rest of the public sector, the council has significant challenges ahead in addressing this matter.

Governance and accountability

7. An organisational review has recently been completed which implemented a '3+1' senior management model where the 'plus one' is a joint role with NHS Grampian to take forward the health and social care integration agenda. The committee structure has also been reviewed to provide better alignment with the organisational structure. Overall, the council has satisfactory governance arrangements including effective internal audit and systems of internal control.
8. New governance hubs were approved to provide a scrutiny framework within relevant services to consider performance information in respect of group companies and Arm's Length External Organisations (ALEOs). Overall responsibility for scrutiny of performance falls within the revised remit of the Audit, Risk and Scrutiny Committee. While the framework for the hubs was agreed in February 2014, the cycle of meetings did not commence until summer 2014. Once embedded, this will be a good practice example.

Key Messages

9. The council's local authority trading company for adult social care services, Bon Accord Care, commenced business in August 2013 and has recently reported a deficit for the year to 31 July. One year on, the planned scrutiny arrangements are still being implemented.

Best Value, use of resources and performance

10. In the 2014 Assurance and Improvement Plan, the Local Area Network concluded that Best Value follow up would be undertaken in winter 2014/15. The LAN felt it would be appropriate to consider improvement since the previous Best Value audit in 2009 and, in particular, to determine whether performance has been managed and sustained against a backdrop of significant change in political and managerial leadership.
11. In order to address ongoing housing benefit processing problems, the council invited the Department of Work and Pensions Performance Development Team to review its processes for housing benefits. A subsequent performance update to Audit Scotland demonstrated sufficient improvement that no further focused performance audit will be undertaken at the moment.

12. Following a review of the council's performance data, we highlight areas of high and low performance within the report. For example, while housing tenants report high satisfaction with the repairs service, the time taken to re-let properties between tenancies is now almost twice the target number of days, and managing homeless cases is taking 14 days longer than it did a year ago. These are areas the council acknowledges are unacceptable and is taking action to address.

Outlook

13. Demands on services and resources continue to increase and these need to be managed alongside major reforms in the welfare system and health and social care. This underlines the need for strong governance, leadership and decision making based on good cost and performance information. Effective working with partners will be required to make the best use of available resources as well as innovation and vision to design and deliver the services needed to serve the future needs of citizens.

Introduction

14. This report is a summary of our findings arising from the 2013/14 audit of Aberdeen City Council. The purpose of the annual audit report is to summarise the auditor's opinions and conclusions, and to report any significant issues arising from the audit. The report is divided into sections which reflect our public sector audit model.
15. Our responsibility, as the external auditor of Aberdeen City Council, is to undertake our audit in accordance with International Standards on Auditing (UK and Ireland) and the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.
16. This report should form the basis of discussions with the Audit, Risk and Committee as soon as possible after it has been issued. Reports should be made available to stakeholders and the public, as audit is an essential element of accountability and the process of public reporting.
17. This report will be published on our website after it has been considered by the council. The information in this report may be used for the Account's Commission's annual overview report on local authority audits. The overview report is published and presented to the Local Government and Regeneration Committee of the Scottish Parliament.
18. The concept of audit risk is of key importance to the audit process. Appendix III sets out the significant audit risks identified in our 2013/14 Annual Audit Plan and the work we undertook during the year to gather appropriate assurances to address each of these risks which assisted us in arriving at our opinion on the financial statements.
19. Appendix IV is an action plan setting out the high level risks we have identified from the audit for members' attention. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response".
20. We recognise that not all risks can be eliminated or even minimised. What is important is Aberdeen City Council understands its risks and has arrangements in place to manage these risks. The council and the Proper Officer should ensure that they are satisfied with proposed management action and have a mechanism in place to assess progress and monitor outcomes.
21. We have included in this report only those matters that have come to our attention as a result of our normal audit procedures; consequently, our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.
22. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

Financial statements

Net General Fund and
HRA service budget
expenditure £421.2m

Outturn £413.3m

Overall Budget
Underspend
£7.9m

Planned capital
expenditure £147.8m

Outturn Capital
spend £80.9m

Capital
Underspend
£66.9m

Planned Usable Reserves
£108.8m

Outturn usable
reserves
£116.8m

Movement in
usable reserves
£8.0m

Audit opinion

23. We have given an unqualified opinion that the financial statements of Aberdeen City Council for 2013/14 give a true and fair view of the state of the affairs of the council and its group as at 31 March and of the income and expenditure for the year then ended.

Other information published with the financial statements

24. Auditors review and report on other information published with the financial statements, including the explanatory foreword, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.

Legality

25. Through our planned audit work we consider the legality of the council's financial transactions. This includes obtaining written assurances from the Proper Officer. There are no legality issues arising from our audit which require to be reported.

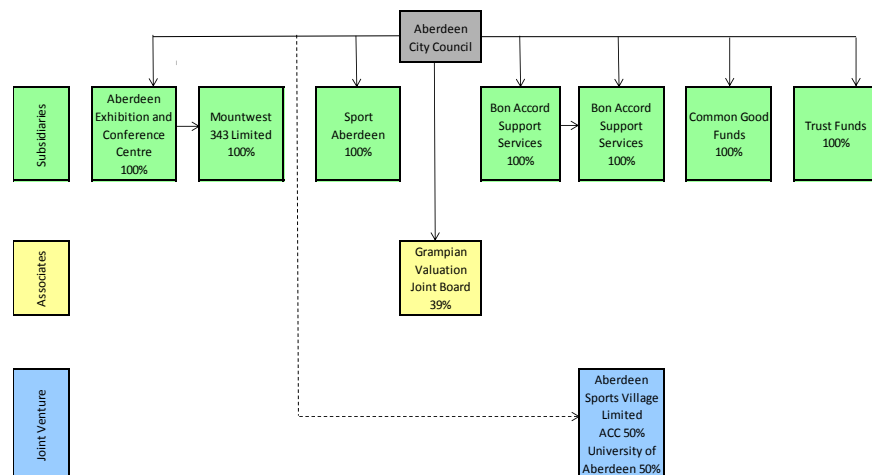
The audit of charities financial statements

26. The Charities Accounts (Scotland) Regulations 2006 (the 2006 Regulations) sets out the accounting and auditing rules for Scottish charities. These required, for the first time in 2013/14, a full audit of all registered charities accounts where a local authority or some members are the sole trustees.
27. Aberdeen City Council had 4 funds which were subject to the full charities financial statements audit for 2013/14.
28. Auditors of registered charities' statement of accounts have responsibilities to
- audit and express an opinion on whether the charity's financial statements give a true and fair view and are properly prepared in accordance with charities legislation
 - read the trustees' annual report and express an opinion as to whether it is consistent with the financial statements
 - report on other matters by exception to the trustees and to the Office of the Scottish Charity Regulator (OSCR).
29. We have given an unqualified opinion on these matters with respect to the 2013/14 financial statements of the relevant charities registered by Aberdeen City Council.

Group accounts

30. Local authorities are required to prepare group accounts in addition to their own council's accounts where they have a material interest in other organisations.
31. Within its 2013/14 group accounts, Aberdeen City Council has accounted for the financial results of seven subsidiaries including the Common Good Fund and trust funds, one associate and one joint venture (Exhibit 1). The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £99.2m.
32. The net assets of the group at 31 March 2014 totalled £1,264.1m, compared with £710.8m in 2012/13. The positive movement in the closing net worth balance is mainly due to the removal of Police and Fire pension liabilities following the transfer of these functions to new single service authorities from 1 April 2013.

Exhibit 1 – Aberdeen City Council Group Structure



Source: Aberdeen City Council Statement of Accounts 2013/14

Accounting issues arising

33. Our 'Report to those charged with governance on the 2013/14 audit', was presented to the Audit and Risk Committee on 25 September 2014. The primary purpose of that report is to communicate the significant findings arising from our audit prior to finalisation of the independent auditor's report. The main items are summarised in the following paragraphs.

Presentational and monetary adjustments

34. Presentational and monetary adjustments identified in the financial statements during the course of our audit were discussed with finance and appropriate amendments made. The effect of these adjustments was a decrease in the comprehensive income and expenditure account and net assets of £3.122m and a decrease of £0.642m in the general fund. The main amendments related to:

- **Valuation of assets:** the amount recorded in the asset register as the valuation of Bankhead recycling centre was overstated by £0.135m. In addition, following the fire at the former Burnside school site, there was a need to carry out an impairment on the value of the property and consequently, an adjustment of £2.345m has been made.
- **Site of the former Summerhill Centre:** plans were in place for a supermarket to be developed on the site. The interested chain demolished the former building with a view to clearing the site. In July 2014, the interested party pulled out of the development leaving the council to consider alternative plans for the site. However, there was an agreement between the council and the supermarket requiring the council to reimburse the supermarket for the costs it had incurred in the demolition of the former buildings on the site. A claim was lodged with the council for approximately £0.650m which is within the limit capped in the formal agreement.

Financial statements

While the supermarket withdrew their interest in summer 2014 after the submission of the draft accounts for audit, there has been uncertainty around this development for some time and therefore the council has chosen to include the likely payment as a provision at 31 March 2014. We concurred with this treatment.

35. Adjustments were not made for other misstatements identified during the audit. These misstatements are immaterial to the accounts as a whole. If adjusted, the net impact of the misstatements would be a decrease of £0.383m in net assets and the general fund.
36. Supporting evidence in respect of grants of £1.0m received in advance from a number of organisations was reviewed during the audit. The amount was carried forward within creditors/grants in advance on the basis that the grants may have to be repaid if unspent. From our review, we felt there was evidence to suggest repayment of the grant was unlikely and therefore, in that situation, the accounting treatment would be to recognise the income in the year and to carry the balance as an earmarked balance within the general fund.
37. The matter was discussed with officers and having reflected on the content of the Code, we agreed there was an element of uncertainty in the guidance. No adjustment was made to the accounts but it was agreed that the year end close down procedures for accounts would reinforce expectations on this aspect of accounting.

Outlook

38. The financial statements of the council are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The main new standards adopted in 2014/15 include :
 - IFRS 10 Consolidated financial statements
 - IFRS 11 Joint arrangements
 - IFRS 12 Disclosures of interests in other entities
 - IAS 28 Investments in associates and joint ventures.
39. These standards affect the group financial statements and include a change to the definition of control. This may require a reassessment of the group boundary and potentially further consolidations and disclosures.
40. The revised Local Authority Accounts (Scotland) Regulations 2014 (revised regulations) apply for financial years 2014/15 onwards. The revised regulations set out in more detail what is required in respect of financial management and internal control, and in respect of the annual accounts themselves. Some of the changes include the requirement for the unaudited accounts to be considered by the Audit, Risk and Scrutiny Committee. This can take place following submission to the auditor and up to 31 August if necessary. In addition the audited accounts must be considered and approved for signature by the committee by 30 September with publication on the council's website by 31 October. These timescales

were met in respect of the 2013/14 financial statements.

41. Highways assets are currently carried within infrastructure assets in the balance sheet at depreciated historic cost. The 2016/17 Code requires highways to be measured for the first time on a depreciated replacement cost basis. This represents a change in accounting policy from 1 April 2016 which will require a revised opening balance sheet as at 1 April 2015 and comparative information in respect of 2015/16. This is a major change in the valuation basis for highways and will require the availability of complete and accurate management information on highway assets. The council has been actively planning ahead to allow full compliance with the Code.
42. Subsequent to the year end, a ruling by the European Court of Justice in the case of *Locke v British Gas Trading Company* reached the opinion that the calculation of holiday pay could be based on variable payments in addition to basic pay, for example contractual overtime or bonus payments. Furthermore it may be possible for employees to make retrospective claims and for former employees to submit claims. As this is a recent development, the council has yet to assess the relevance and impact of the decision on its current and former employees and therefore a contingent liability was included in the accounts. However, this matter may expose the council to large potential claims for holiday pay arrears.

Financial position

43. The council reported a deficit of £21.9m on the provision of services in 2013/14. Adjusting this balance to remove the accounting entries required by the Code, the council increased its general fund balance by £8m.
44. In overall terms, the management of staff vacancies across all services produced savings of £14.6m (£9.2m - 2012/13), representing 6.1% (3.7% - 2012/13) of the general fund staff budget.
45. Exhibit 2 shows a continuing trend in underspends in recent years. Key variations against budget included:
- Housing and Environment Services achieved an underspend of £2.9m, 8% of budget, due to lower costs for homelessness linked with reduced dependence on bed and breakfast accommodation
 - Enterprise, Planning & Infrastructure showed an underspend of £3.2m, 7.8% of budget, arising from higher planning and building warrant fee income than budgeted, reflecting the buoyant Aberdeen economy.

Exhibit 2 - Key Services (underspend)/ overspend

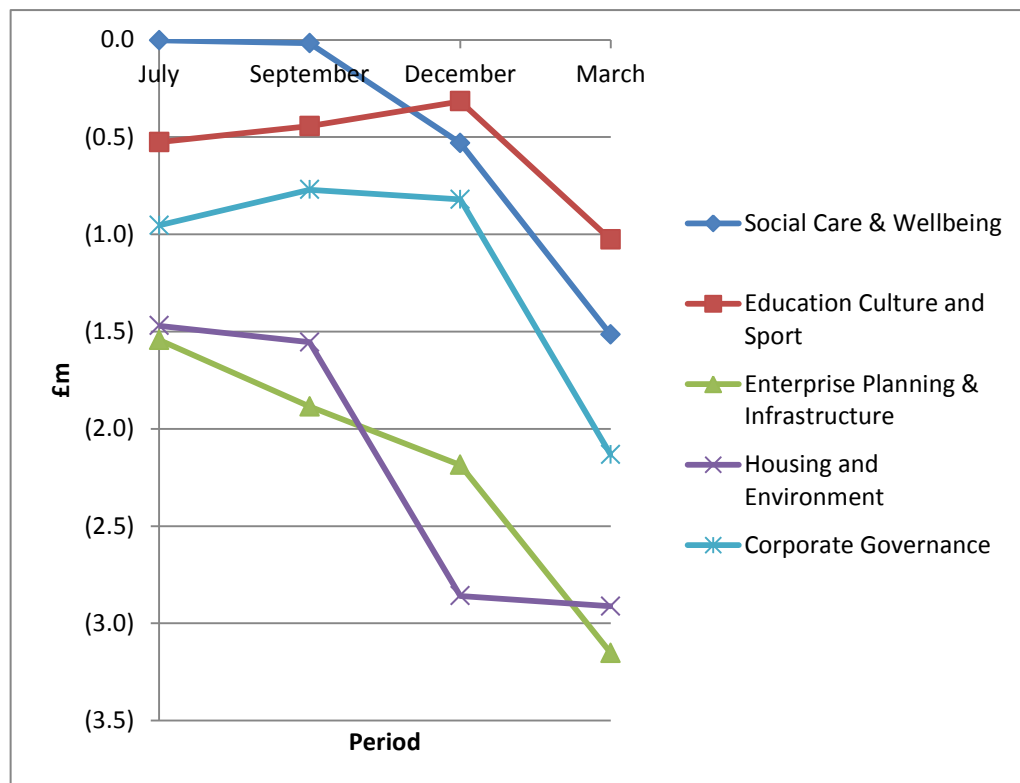
	2013/14	2012/13	2011/12
	£m	£m	£m
Key Services			
Education, Culture and Sport	(1.0)	(1.0)	(0.7)
Housing and Environment	(2.9)	(3.9)	(0.8)
Social Care and Wellbeing	(1.5)	(0.2)	(2.2)
Enterprise Planning and Infrastructure	(3.2)	(1.8)	(3.0)
Corporate Governance	(2.1)	(2.5)	(2.8)

Source: Aberdeen City Council Statement of Accounts 2011/12, 2012/13 and 2013/14.

46. Exhibit 3 shows the departmental projected results as reported on a regular basis to members during the year. This shows the favourable projected outturn developing each quarter.

Financial position

Exhibit 3 - 2013/14 Projected Outturn Variance against Budget



Source: Aberdeen City Council Revenue Budget Monitoring

47. Usable reserves are part of a council's strategic financial management and councils will often have target levels of reserves.

48. Aberdeen's usable reserves increased from £108.8m at 31 March 2013 to £116.8m at 31 March 2014 (Exhibit 4). The closing general fund balance at 31 March 2014 is made up of earmarked commitments of £45.8m and an unallocated balance of £11.3m. In contrast, an analysis of Scottish councils' unaudited 2013/14 accounts showed that over half of all councils utilised reserves brought forward, with around half of all councils ending 2013/14 with lower levels of reserves than they had at the start of 2012/13.
49. The council's policy is to maintain free balances at £11.3m which is approximately 2.5% of revenue expenditure. At 31 March 2014, the unallocated general fund balance was held at this level.
50. The total value of the council's earmarked reserves including the Housing Revenue Account balance as at 31 March 2014 was £48.5m (38 balances), an increase of 20.3% from 2013 (£40.4m representing 31 balances).

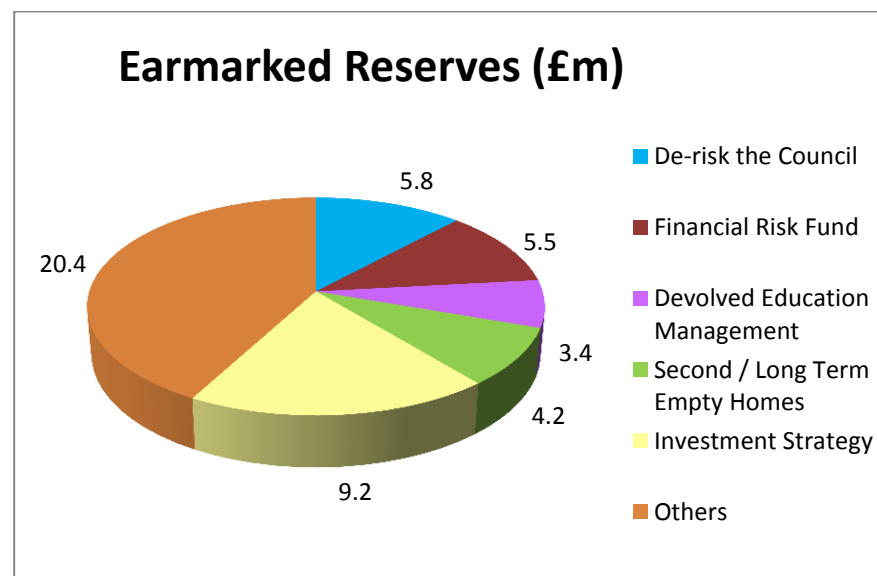
Exhibit 4: Usable reserves

Description	31 March 2014 £m	31 March 2013 £m	Movement %age
General Fund (unallocated)	11.3	11.3	0
General Fund (earmarked balances)	45.8	37.9	21.1
Housing Revenue Account (unallocated)	6.7	6.0	11.7
Housing Revenue Account (earmarked balances)	2.7	2.4	12.5
Statutory and other reserves	50.2	51.1	(1.8)
Capital grants unapplied	0.1	0.1	0
Total	116.8	108.8	7.4

Source: Aberdeen City Council Statement of Accounts 2013/14

51. The main earmarked balances held by the council at 31 March 2014 are analysed in Exhibit 5. There is a significant new balance in the year for an Investment Strategy Reserve of £9.2m. The Investment Strategy Reserve was established to set funding aside to support investment e.g. the council's Strategic Infrastructure Plan and other capital projects.

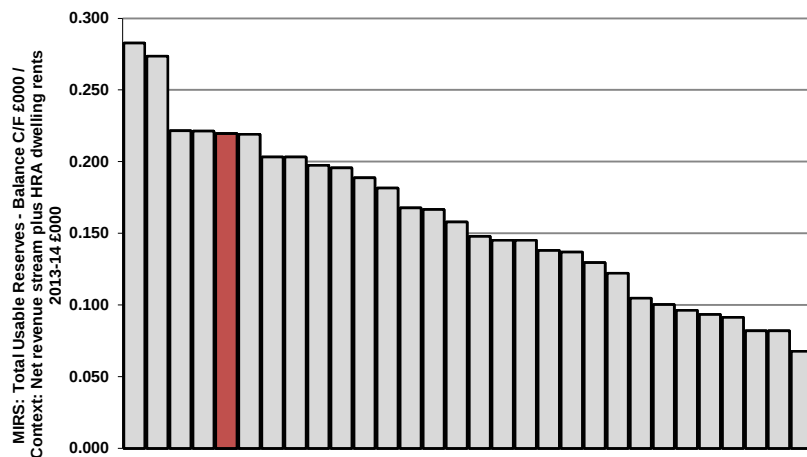
Exhibit 5 : Earmarked Reserves



Source: Aberdeen City Council Statement of Accounts 2013/14

52. Exhibit 6 presents the council's usable reserves position in relation to net revenue stream for the year in comparison to other Scottish councils (net revenue stream being presented as general revenue grant, council tax, non domestic rates and dwelling rents). Taking the increase in usable reserves and the level of earmarked balances into consideration, Exhibit 7 confirms that the council's performance is better than the median level.

Exhibit 6: Total Usable Reserves as a proportion of net revenue stream



Source: Scottish councils' unaudited accounts 2013/14

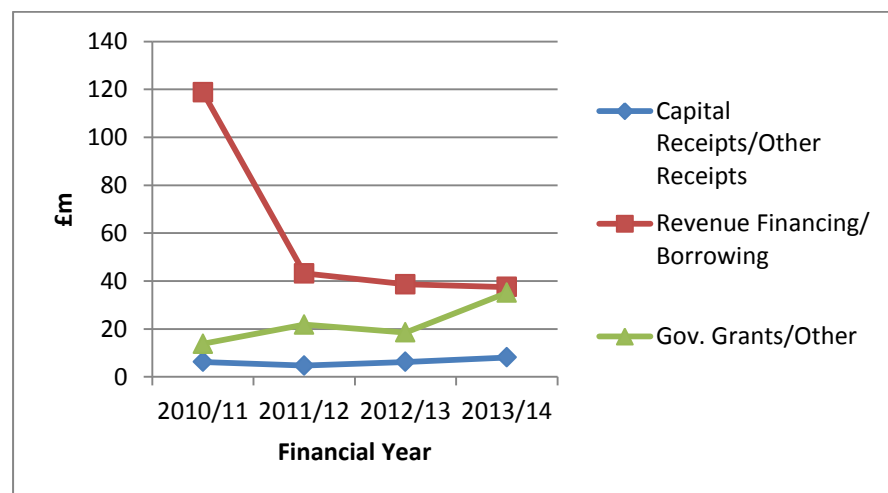
53. Total capital expenditure for 2013/14 was £80.9m. Investment during the year included £10.8m in enhancing schools and other assets, £22.1m in housing stock, £7.1m in hydrogen buses and fleet replacement and £ 15.1 in roads and infrastructure. The capital programme was funded as shown at Exhibit 7 below.

54. The financial statements show additions to the council's property, plant and equipment of £77.5m, the majority of which relates to enhancement expenditure on council dwellings. In the main, this represents planned expenditure to enable the council's stock to meet Scottish Housing Quality Standards. Where appropriate, the council took the opportunity to upgrade empty properties between lets. While this extended the void period highlighted on page 30, it also prevented disturbance to tenants. Overall, the percentage of stock that currently meets the standard is around 90% and this is above the national average.

55. The trend in sources of funding for capital expenditure is reflected in Exhibit 7. This shows that capital funding from the various sources for 2013/14 was broadly consistent with the previous year with the exception of the category for government grants/other funding. Included in other funding for 2013/14 was a contribution from the capital fund.

56. The council, in conjunction with Aberdeenshire Council and Transport Scotland has continued to progress the construction of the Aberdeen Western Peripheral Route (AWPR) and has an obligation to pay a share of the costs. In 2013/14, the council spent £9.1m on the project, and this formed a significant element of the council's capital programme.

Exhibit 7 - Sources of finance for capital expenditure 2010/11 – 2013/14



Source: Aberdeen City Council Statement of Accounts

57. The council has reported an underspend against the planned level of capital expenditure of £66.9m or 45.3% of the total programme for 2013/14. The main reasons for this slippage include the legal challenge in respect of the Western Peripheral Route which delayed progress and a delay in the delivery of hydrogen buses to the city.

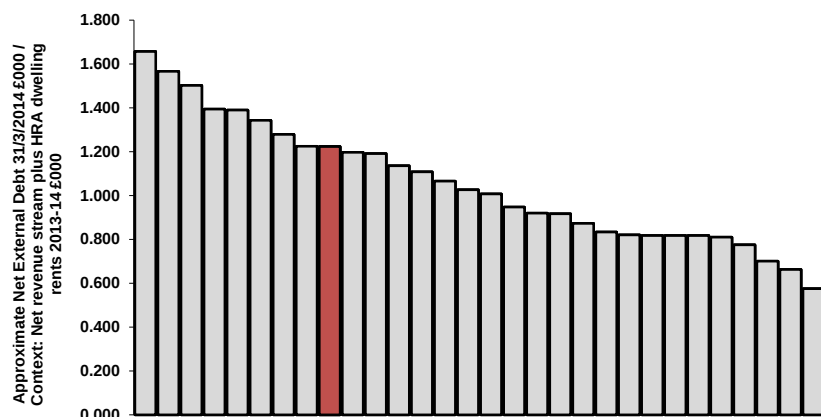
Treasury Management

58. Treasury management activities are reported twice a year to the council and the strategy is updated annually. As at 31 March 2014, Aberdeen City Council held short term investments of £25.2m (£20.3m at 31 March 2013).
59. All borrowing undertaken by the council should be in accordance with the Prudential Code which requires the council to demonstrate that it is affordable and sustainable. During 2013/14, the council reduced its level of short term borrowing from £121.7m to £117.6m which represents around 21% of total borrowing. The use of short term borrowing carries a liquidity risk in making repayments and exposes the council to increasing costs should interest rates rise. Whilst the council recognises this risk, its treasury management strategy is aimed at benefiting from the current low interest rates offered on short term borrowing.
60. In the current financial climate, many councils have relatively high levels of internal borrowing, utilising available cash balances and deferring external borrowing. However, Aberdeen City Council's underlying need to borrow or capital financing requirement (CFR) at 31 March 2014 was £726.5m while net external borrowing was £88.6m lower at £637.9m.
61. In line with the council's strategy, only 20% of the council's

Financial position

capital spend in the year was funded through borrowing with the remainder largely funded from grants and capital from current revenue. The council's level of net borrowing in 2013/14 has decreased by 5% compared to the previous year. Aberdeen's net external debt as a proportion of net revenue stream is heading towards the middle range relative to other Scottish councils (Exhibit 8).

Exhibit 8 : Net external debt as a proportion of net revenue stream



Source: Scottish councils' unaudited accounts 2013/14

62. Audit Scotland has, on behalf of the Accounts Commission, recently completed a national review of borrowing and treasury management in councils. The review focused on the affordability and sustainability of borrowing and governance

arrangements and considered how councils demonstrate best value in their treasury management functions. The national report is planned for publication in January 2015.

Financial planning to support priority setting and cost reductions

63. The Aberdeen City Council Business Plan was approved by the council in February 2013 as part of the budget setting process for 2013/14. As part of the development of the Business Plan and budget, the council updated its Priority Based Budgeting (PBB) exercise to review all costs incurred and consider all services being delivered. While the budget setting process identified a shortfall of £5.5m, it was planned that the Financial Risk Fund would meet any shortfall actually required and this enabled the council to set a balanced budget for 2013/14. Financial forecasts and progress against savings packages are routinely reviewed and monitored as part of regular monitoring reported to the management team and members. The longer term position highlighted a cumulative shortfall of £20.0m in the 5 year period to 2017/18.
64. In February 2014 the council approved its budget for 2014/15. The net service expenditure budget set for 2014/15 is £440.4m which is comparable with that set for 2013/14. However the 5 year indicative budget highlighted a worsening position with an identified spending gap of £35.1m over the period of the plan. (Exhibit 9)

Exhibit 9: Movement in Financial Position 2013/14 – 2018/19

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000	£'000
2013/14 Budget – Agreed 14/02/13						
Funding	(434,005)	(436,559)	(445,470)	(451,572)	(456,228)	
Expenditure	439,546	447,910	452,187	466,672	476,276	
Shortfall	5,541	11,351	6,717	15,100	20,048	
Savings Agreed	(5,541)	(3,054)	0	0	0	
Revised Shortfall	0	8,297	6,717	15,100	20,048	
2014/15 Budget - Agreed 06/02/14						
Funding		(440,368)	(447,438)	(453,112)	(457,495)	(457,408)
Expenditure		440,368	449,363	467,516	482,598	492,543
Shortfall		0	1,925	14,404	25,103	35,134
Revised Shortfall		0	1,925	14,404	25,103	35,134

Source: Aberdeen City Council Revenue Budget 2013/14 and 2014/15

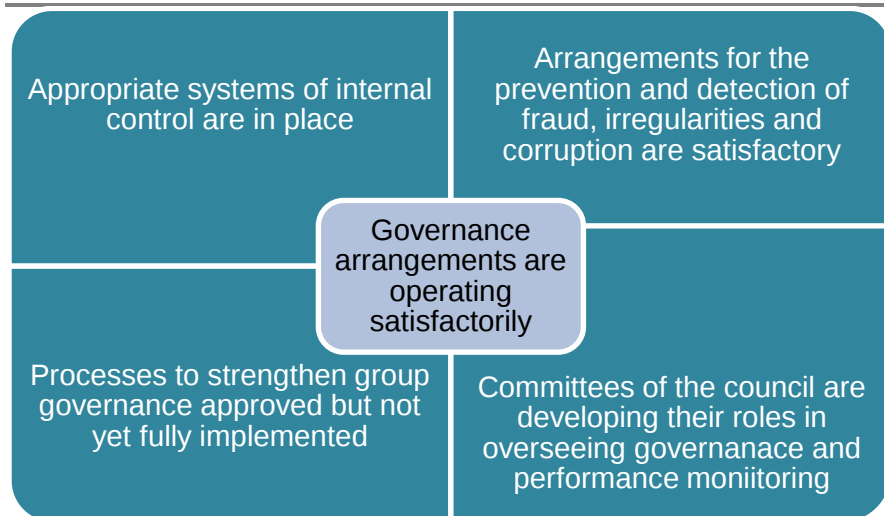
Refer Action Plan, Recommendation 1

Outlook

2014/15 budget and beyond

65. As at July 2014, the 2014/15 outturn forecast reported to members was an underspend of £5.5m, around 1.3% of budget. This forecast results from expenditure and income being controlled and assumes that savings options will be delivered.
66. In the short term, the council has relative financial stability as a balanced budget was set for 2014/15 with no requirement for a range of specific savings to be delivered. In the medium to long term however, public sector finance remains significantly challenging for councils. Aberdeen, in common with other councils, has more work to do to address the funding shortfall.

Governance and accountability



67. Members of Aberdeen City Council, the Chief Executive and Head of Finance are responsible for establishing arrangements for ensuring the proper conduct of the affairs of Aberdeen City Council and for monitoring the adequacy and effectiveness of these arrangements.

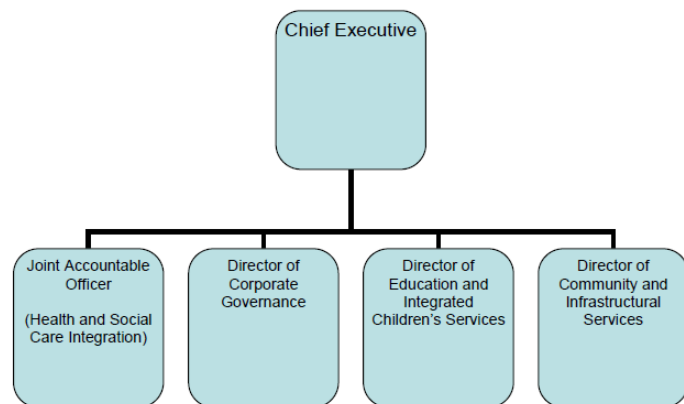
Corporate governance

68. The corporate governance framework within the council is centred on the council which was supported in 2013/14 by the following standing committees.



69. In March 2014, the chief executive announced her resignation and left the council in summer 2014. Action was taken to fill the position and the Director of Corporate Governance was announced as the new Chief Executive in early May 2014.
70. Proposals to revise the structure of the corporate management team were approved by the council in May 2014. The number, roles and remits of directors were reviewed resulting in a '3+1' model where the 'plus one' is a joint role with NHS Grampian to take forward the health and social care integration agenda (Exhibit 10).

Exhibit 10 – Revised senior management structure



Source: Council 14/05/14 – Organisational Review (Phase 1) Report

71. The aim of the new structure is to better enable the council to deliver its priorities in light of the needs of new legislation and national agenda initiatives. Phase 2 of the restructure involving heads of service is now reaching a conclusion in autumn 2014.
72. In terms of political leadership, a new Leader of the council was appointed in May 2014. She had previously been the chair of Education, Culture and Sport Committee. In addition, the committee structure of the council was revised in August 2014 to align committees with the revised organisational structure of the council.

73. In our report on the 2012/13 Audit, we commented on behaviours observed in the council chamber. We continue to observe meetings and monitor tone and behaviour as part of our routine audit work. In October 2014, the council began webcasting council meetings and we will monitor the impact of this development on future practices in the chamber.
74. Based on our observations and audit work, our overall conclusion is that the governance arrangements within the council have operated satisfactorily during 2013/14. We recognise however that there have been a number of important changes during the summer and these will need time to settle.

Internal control

75. As part of our audit we gather assurances on the high level controls in the council's key financial controls systems that impact on the financial statements. For 2013/14, we have largely placed reliance on internal audit's Continuous Financial Controls activity which covered, for example, payroll, accounts payable, accounts receivable, treasury management, council tax and non-domestic rates. Our overall conclusion was that Aberdeen City Council had appropriate systems of internal control in place during 2013/14.

Internal audit

- 76. Internal audit provides members of the council and the Proper Officer with independent assurance on the overall risk management, internal control and corporate governance processes.
- 77. Generally, we seek to rely on the work of internal audit wherever possible and, as part of our 2013/14 planning process, we concluded that the internal audit service operates in accordance with relevant Public Sector Internal Audit Standards (PSIAS) which enabled us to take assurance from their documentation and reporting procedures.
- 78. From 2014/15, the revised accounts regulations (paragraph 40) require the Audit, Risk and Scrutiny Committee to undertake an annual review of the internal audit function. Plans will need to be put in place to ensure the review is carried out.

ICT audit

- 79. For the first time in 2012/13, councils had to apply to connect to the Public Services Network (PSN) to allow the sharing of electronic data with other public bodies, such as the Department of Work and Pensions. This entailed complying with the strict security measures of the PSN Code of Connection which, if fully met, resulted in the issue of a compliance certificate. The application and approval process is subject to annual review and could result in a disruption to

operations and service delivery if there were any non-compliance issues. The council's work programme for 2014 was completed satisfactorily and the current certificates covers the year to August 2015.

Arrangements for the prevention and detection of fraud and corruption

- 80. The council's arrangements in relation to the prevention and detection of fraud and irregularities were satisfactory.
- 81. Aberdeen City Council participates in the National Fraud Initiative (NFI). The NFI uses electronic data analysis techniques to compare information held on individuals by different public sector bodies and different financial systems, to identify data matches that might indicate the existence of fraud or error. Overall, we concluded that the council has good arrangements in place and we noted that data matches were generally reviewed promptly.
- 82. The council's arrangements for the prevention and detection of corruption are satisfactory and we are not aware of any specific issues that we need to record in this report.

Local authority trading company (LATC) – Bon Accord Care

83. One of the initiatives taken forward within the council's 2011 five year business plan was an alternative delivery model for the council's adult social care services.
84. The plans set out that the LATC would be a trading company wholly owned by the council, have a turnover of £26 million and employ around 650 FTE staff. In addition to the contract with Aberdeen City Council, the LATC expected to generate additional income by offering its existing services to service users who were previously 'out of reach' or the provision of existing services to new customers. Retained profits over five years were estimated at £2.2 million and would provide for additional investment in older people's services.
85. The council agreed to establish a Shareholder Liaison Group (SLG) of elected members to hold directors to account and scrutinise performance. Directors would meet the SLG quarterly and the managing director would report to full council annually. In addition, as part of a wider council initiative, a series of governance hubs were introduced which established a group of officers within each relevant service to consider performance information in respect of the council's group companies and ALEOs. It was agreed that the new governance hubs would include the LATC and that a sub-committee to the Audit and Risk Committee, to be known as the Shareholder Scrutiny Group, would be established to review the LATC's performance.
86. It was intended that the LATC would commence trading with effect from 1 April 2013 but this was delayed until 1 August 2013. At that point, the council transferred the operation of its Adult Social Care Services to Bon Accord Care Ltd (BAC) and Bon Accord Support Services Ltd (BASS). BAC and BASS are private companies limited by shares which are 100% held by Aberdeen City Council. BAC is the main employer and provides regulated (by the Care Inspectorate) care services to BASS which in turn delivers both regulated and unregulated adult social care services to the council including support and facilities services to BAC. The two companies model provides a client/contractor arrangement and in addition, BASS holds the operating licence to use the council's care homes.
87. It was expected that the Social Care and Wellbeing Committee would receive twice yearly progress reports on a range of service delivery and performance matters. However, the only reporting to committee was an interim report comparing service delivery received from BAC against targets set. A full report on year one performance, including financial performance, was to be considered by the Social Care, Wellbeing and Safety Committee in August 2014. However, the report was not ready and was instead submitted to full council in October 2014.

88. The report covered the first 12 months trading to 31 July 2014 and highlighted the following:

- staff absence had recently shown some improvement and the initiative would be developed further in the year ahead. Consequently planned savings had so far not been achieved.
- a number of central office costs expected to be absorbed within the first year's budget contributed to the deficit of £384k.
- the contract with the council is being revised to bring it into line with the demands of the service.

89. At 31 March 2014, after 8 months of trading, BAC broke even having incurred expenditure of £13m mainly on staff costs. BASS however reported a loss. The accounts show expenditure of £17m, mainly the supply of services from BAC, and income from the council of £16.5 million. Income is largely in line with the original contract price although there have been some variations in budget lines.

90. We wish to highlight the following points in relation to the LATC:

- the provision of performance information to and the scrutiny of it by members has been limited. One year on, planned scrutiny arrangements in respect of the LATC are only now showing signs of progress. While the Liaison/Scrutiny Group was agreed some time ago, the first

meeting has not yet taken place.

- the director of social care and wellbeing who led the LATC initiative left the council in June 2013. This combined with other significant changes in the organisational structure may have contributed to the slower progress in reporting.
- the terms of the contract with the council are being reviewed and office costs, which were expected to be absorbed in the year one budget, contributed to the deficit.

Refer Action Plan, Recommendation 2

Correspondence referred to the auditor by Audit Scotland

91. Part of Audit Scotland's duties as external auditors of Aberdeen City Council is to consider concerns raised with us by members of the public about the council. If appropriate, we may investigate them further.

92. Audit Scotland received a large volume of correspondence about a letter, which mentioned the then forthcoming Scottish Independence referendum, that the council issued to its residents along with their council tax billing documents in March 2014. We considered those matters which were of audit interest as defined by the Code of Audit Practice in the context of the relevant legislation. We reviewed the content of the letter, the process that the council followed prior to its issue and any additional costs that it incurred in including the letter

with the council tax bills. We sought to conclude on the council's compliance with relevant legislation, regulations and its consistency with custom and practice.

- 93. We noted that it would be matter for a court to determine whether the letter complied with the prohibition of political publicity under the 1986 Local Government Act.
- 94. The 1992 Council Tax Regulations do not explicitly preclude types of information included with council tax bills. The leader's statement accurately reflected the council's position on the referendum. However, the statement was very unusual and we are not aware of any other council including similar information on the referendum with their council tax bills.
- 95. The Controller of Audit concluded that no additional expenditure had been incurred by including the statement.

Integration of adult health and social care

- 96. The Public Bodies (Joint Working) (Scotland) Act 2014 provides the framework for the integration of health and social care services in Scotland. The integration will be complex and challenging and the council will need to engage at the highest level with the relevant health bodies in its area to ensure that integration is delivered within the required timescales and that the arrangements are functional and fit for purpose.
- 97. The council and NHS Grampian agreed on a body

corporate/integrated joint board model for Aberdeen. The restructure of the council's management team, as set out on pages 19 and 20, includes a chief officer who is jointly accountable to both the council and NHS Grampian for the health and social care integration agenda. This post was filled in August 2014 and the incumbent took office in October 2014.

- 98. A Transitional Leadership Group was approved in November 2013 to oversee integration in Aberdeen. The group is made up of 6 elected members from the council, the council's outgoing director of social care and wellbeing, 6 non executive members from NHS Grampian, the community healthcare partnership's general manager, NHS Grampian's clinical lead and representatives from the third sector and trade unions. The overall purpose of the group which has met regularly since February 2014 is to put the necessary structures in place and provide strategic direction in relation to the implementation of the integration of health and social care in line with national policy and local requirements.
- 99. The integration Joint Board must be in place during the period 1 April 2015 to 1 April 2016. In the case of Aberdeen, the intention is that the necessary approvals to establish the board will be obtained by 1 April 2015.
- 100. Approval is being sought from the council and NHS Grampian for the transition of the group into the Shadow Joint Board. Arrangements in Aberdeen are currently on track to ensure the partnership is established to meet the statutory timescales.

- 101.** In July 2014, Audit Scotland visited the Aberdeen Community Planning Partnership (CPP) to assess progress since the CPP audit in 2012. An important area identified for development in 2012 was the need to increase engagement with NHS Grampian with a view to improving outcomes. It was reported that good progress had been made.
- 102.** While improved engagement has been reported through the CPP audit progress visit, Aberdeen City Council and NHS Grampian need to continue to develop and embed effective relationships to ensure the integration agenda is delivered in line with plans.

Refer Action Plan, Recommendation 3

Housing and council tax benefits performance audit

- 103.** Separate from the audit of the council's housing benefit subsidy claim, Audit Scotland carries out a programme of Housing Benefit/Council Tax Benefit risk assessments. A review was undertaken in Aberdeen in September 2012 following completion and submission of a self-assessment in August 2012. The findings from the review were reported to the Audit and Risk Committee in June 2013. An agreed action plan to address improvement opportunities and minimise identified risks was agreed. For example, it covered the need for the service to do more in the areas of accuracy of processing

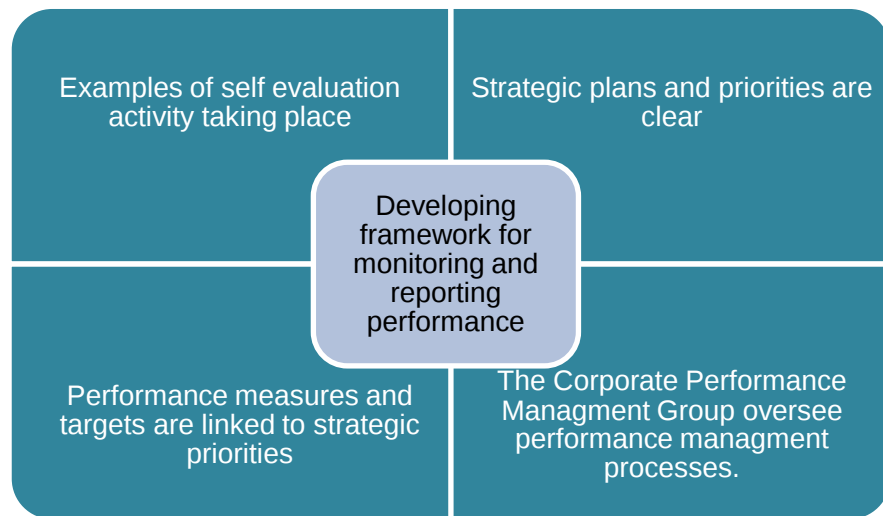
claims and interventions. The council also needed to set out what it would do to correct payments to customers and to help minimise further financial losses arising from payment errors.

- 104.** The Assistant Auditor General wrote to the council in December 2013, noting that performance of the council's housing benefits service overall continued to give cause for concern and that Audit Scotland would normally consider undertaking a focused audit with a formal report to the Accounts Commission. However, the council had engaged the Department for Work and Pension's Performance Development Team to review the processes for benefit administration and as this review was ongoing, it was decided not to proceed at that time. Instead a performance update by 31 July 2014 was requested and in August 2014, the chief executive was advised that as a result of the improvements made in performance, no further audit work was proposed. The impact of the changes on performance will be reviewed at the next routine performance audit risk assessment which will fall within a future cycle of scheduled reviews.

Outlook

105. Councils continue to face rising demands for services alongside managing major reforms.
106. There are to be major changes in councils' responsibilities for the investigation of fraud. The new Single Fraud Investigation Service (SFIS) is a national fraud investigation service within the Department for Works and Pensions which will take over the responsibility for the investigation of housing benefit frauds. The investigation of the Local Council Tax Reduction Scheme and corporate frauds will remain within councils. The SFIS will be implemented on a phased basis during the period July 2014 to March 2016. In many councils, this will involve the transfer of experienced staff from councils to the DWP. In Aberdeen, however, proposals are being prepared to retain existing investigators to cover the fraud work to be retained by councils.

Best value, use of resources and performance



- 107.** Local authorities have a statutory duty to provide best value in those services they provide directly as well as those provided through agreements with Arm's Length External Organisations. This requires continuous improvement while maintaining a balance between quality and cost and having regard to value for money, equal opportunities and sustainability. There is also the duty to report performance publicly so that local people and other stakeholders know what quality of service is being

delivered and what they can expect in the future.

Arrangements for securing Best Value

- 108.** In the 2014 Assurance and Improvement Plan, the Local Area Network concluded that a Best Value follow up would be undertaken in winter 2014/15. The LAN felt it would be appropriate to consider improvement since the 2009 Best Value audit and, in particular, to determine whether performance has been managed and sustained against a backdrop of significant changes in leadership.

Use of resources

- 109.** A Corporate Asset Management Plan was approved in February 2013. This overarching asset management plan is supported by a number of more detailed plans covering specific asset categories, such as property, roads and infrastructure and fleet. There are also service specific asset management plans in place for housing and environment and education, culture and sport.
- 110.** In October 2013, the council approved a Strategic Infrastructure Plan which brings together all planned major projects within the city, including the development of Marischal Square and a replacement exhibition centre.

Best Value, use of resources and performance

- 111. The council operates a central procurement unit (CPU) with Aberdeenshire Council. The CPU has seen steady improvement in its Procurement Capability Assessment score since 2010 increasing to 70 per cent in 2013, which is the second highest score in Scotland and significantly above the Scottish average of 55 per cent. A performance audit on procurement was reported in March 2014 and featured the CPU as an area of good practice.
- 112. A review of the risk management system within the council is in progress. Six separate components have been identified and one is being considered at each cycle of the Audit, Risk and Scrutiny Committee alongside a service risk register through to June 2015.
- 113. The council also has a strategic workforce plan covering the period 2013/14 - 2017/18.

Performance management

- 114. The council's performance management framework comprise mainly of an annual corporate report to members on progress with the council's Business Plan, covering a five-year planning cycle from 2013-18, and quarterly service performance reports going up to the relevant service committee. The council uses 'Covalent', an electronic platform to hold its performance scorecards, and the information contained therein is live and updated regularly. As highlighted in our interim report to the

council in June 2014, the first annual progress report on the existing business plan presented to the council in December 2013 compiled a selection of performance indicators from across its various services. This report included the latest available result for each performance indicator but did not provide comparisons with previous periods and/or target figures to aid users in understanding and drawing conclusions on whether services were demonstrating improvement. Officers have advised us that future reports, the next is scheduled for December 2014, will include trend information.

- 115. In our interim report, we commented on the inconsistencies in performance information reported to committee both in terms of the frequency and currency of reporting and the comparative information used. Since our report, we note that quarterly performance reporting to members at service committee meetings is now more routine.

Refer Action Plan, Recommendation 4

- 116. Since March 2014, the Corporate Management Team has reviewed the council's performance using a performance dashboard and more recently, the Finance, Policy and Resources Committee was introduced to this management tool for reviewing the Corporate Governance Service indicators. It is intended that the use of dashboards will be rolled out across the council in due course. The dashboards should be accompanied by a covering report highlighting key issues for members' attention including proposed actions. In the spirit of

Best Value, use of resources and performance

transparency and proper accountability, links to the dashboards should also be made available on the council's website to afford the public easy access to the most up to date information on performance of the various services of the council.

117. There is a dedicated section on the council's website called 'Aberdeen Performs' which is a repository of all performance information produced by the council ranging from its Corporate Business Plan and Service Plans, its Annual Reports to the public, its Statutory Performance Indicators and a link to the new Local Government Benchmarking Framework among others. We note however, that there is currently no link to the council's Community Plan/Single Outcome Agreement and the Service Plans page is under development. In addition, some of the Service Plans on the site are now out of date.

Refer Action Plan, Recommendation 4

118. We believe the council now has the building blocks required to deliver a more robust performance management and reporting system. It however needs to continue working on achieving consistency and maintaining the frequency and currency of reporting to members and the wider public.

Overview of performance targets in 2013/14

119. From a review of performance information, some of the indicators which demonstrated positive results are:

- percentage of tenants who have had repairs or maintenance carried out in the last 12 months satisfied with the repairs and maintenance service – 90.8% actual vs 80% target
- the number and proportion of the council's housing stock being brought up to the Scottish Housing Quality Standard by criteria – 89.12% actual vs 81.1% target.

120. The latest available SQA analysis is that for school year 2012/13 and provides analysis of the 11 measures of SQA attainment as at September 2013 (pre-appeals). On the whole, Aberdeen City's SQA results for 2013 show an improving trend but still behind its comparators authorities and national average for a majority of the indicators.

- 2 indicators, i.e. Results for "5+ and 1+ awards at SCQF level 6 or better by the end of S6" are both lower in 2013 compared to 2012
- 4 indicators - results have gone up or stayed the same but increase in national/comparator authorities' average is higher than Aberdeen City Council
- for the remaining 5 indicators - although the council's performance in 2013 is still below national/comparator authorities' average, results for the council had gone up from the 2012 equivalent figure and also the increase for the council is higher than the increase for Scotland

or comparator authorities' average.

121. The following is a selection of indicators which showed declining performance:

- the number of people aged 65+ receiving a service that are supported to stay at home reduced by 17% from 28.71% in the previous year to 23.78% for those clients receiving a service during evenings/overnight. This was identified by the service as due to a continuing shortage of qualified and experienced social care staff. Recruitment and retention within the social care sector in the North East has been a significant challenge and so securing care in the evenings and weekends make this even more challenging.
- the % of looked after young people and families at risk supported to stay together or in their own communities was 52.45% against a target of 66%. The council agreed the implementation of the Reclaiming Social Work model which is hoped to bring about a transformative change in the service delivery model with a wholesale restructure of the service. It was highlighted that this model has been proven elsewhere to have resulted in the reduction of the looked after population and children requiring child protection plans.
- the average number of days to re-let council dwellings was 71.5 days against a target of 37 days. The Housing and Environment Service reported that 2013/14 saw the

poorest performance in void rent since 2006/07 losing 1.68% of rent due to void properties, or £1.3m of rental income lost. The service has acknowledged that results are concerning and are working to address the key issues. For example, the council has a number of hard to let properties which can take in excess of a year to relet and this has skewed results. The council also faces challenges in recruiting and retaining sufficient tradesmen to cover the necessary work required to be undertaken before reletting properties.

- the percentage of housing applications processed within 28 days of receipt is 64.8% against the target of 84%. This is a fall from the previous year when 77.7% of applications were processed within target.
- homelessness case management – The average length of homeless journey (from presentation to discharge of duty) was 127.7 days for the year on average (against a target of 100), 14.2 days more than last year. The Service has reported that the closing of historic cases where no statutory decision was made has distorted the journey time. However, officers have advised that in respect of the Scottish Housing Best Value Network benchmarks, the council was the 5th best performer at 20 weeks to close a case compared with the worst case at 68 weeks.

- % urgent roads repairs undertaken within target timescale was 49.3% against a target of 100%. The service highlighted that this is down by 20% from the previous year end and they also confirmed that this is not acceptable.

Refer Action Plan, Recommendation 5

Statutory performance indicators

122. The Accounts Commission has a statutory power to define performance information that councils must publish locally and it does this through its annual Statutory Performance Information Direction. Since its 2008 Direction, the Accounts Commission has moved away from specifying individual indicators and has focused on public performance reporting and councils' requirement to take responsibility for the performance information they report.

123. The audit of Statutory Performance Indicators in 2013/14 is a two stage process. The first stage requires auditors to ascertain and appraise councils' arrangements for public performance reporting and the completion of the Local Government Benchmarking Framework (LGBF) indicators. This focuses on three statutory performance indicators (SPIs) namely :

- SPI 1: covers a range of information relating to areas of

corporate management such as employees, assets and equalities and diversity

- SPI 2: covers a range of information relating to service performance
- SPI 3: relates to the reporting of performance information as required by the Local Government Benchmarking Framework.

124. The second stage involves an assessment of the quality of the information being reported by the council to the public. An evaluation of all Scottish Local Authorities' approaches to public performance reporting (PPR) has been carried out by Audit Scotland's Performance Audit and Best Value section, the results of which were reported to the Accounts Commission in June 2014. The outcome of each individual assessment was also reported to back to the relevant council. These highlighted the extent to which their PPR material either fully, partially or did not meet the criteria used in the evaluation. The results for Aberdeen were mixed, with 48% fully, 43% partially and 9% not meeting the criteria. A further evaluation of councils' approaches to PPR is due to be carried out by Audit Scotland in spring 2015.

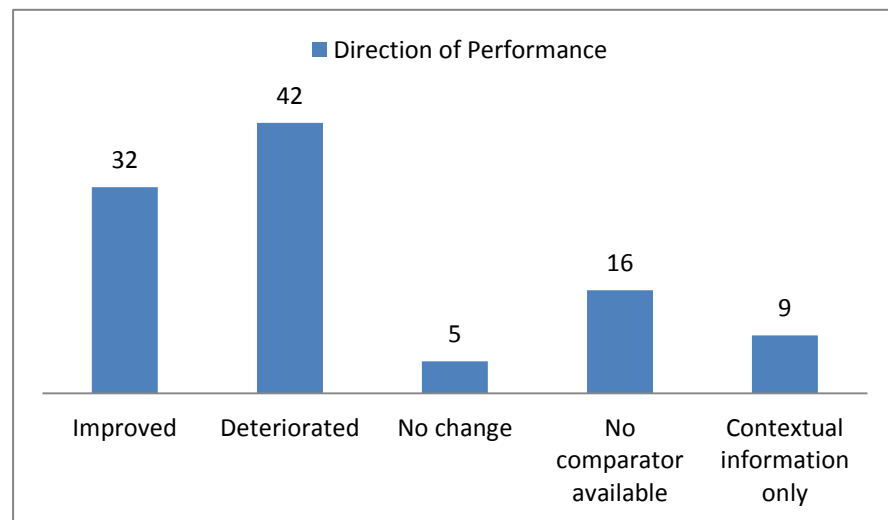
125. The council has produced a total of 104 indicators covering SPI's 1 and 2 for 2013/14. These were in the main the same as last year's SPIs with the exception of a few indicators which will be reported as part of the LGBF indicators in an effort to streamline reporting of indicators. SPI 3 indicators will only be

Best Value, use of resources and performance

available in November 2014. The suite of indicators is expected to be reported to the council in December 2014.

126. A summary of the council's Statutory Performance Indicators for 2013/14 compared with 2012/13 is set out in Exhibit 11.

Exhibit 11 – Direction of Performance 2012/13 - 2013/14



Source: Audit analysis of council's SPIs

127. Among the 42 indicators which showed a deterioration in performance from last year are:

- average number of days to process new benefit claims was 38.12 (27.07 in 2012/13)

- right time indicator – average time taken to process all new claims and changes in housing benefit/council tax benefit was 25.66 (17.69 in 2012/13)
- average number of days to process changes in circumstances was 22.41 (15.28 in 2012/13)
- percentage of all street light repairs completed within 7 days was 69.63% (86.18% in 2012/13)
- pothole repairs – 79.2% (86.5% in 2012/13)
- average time (weeks) to deal with planning applications for major developments was 75.9 (64.7 in 2012/13)
- average time (weeks) to deal with planning applications for local developments was 16.2 (12.3 in 2012/13).

128. Examples of indicators where performance has improved are:

- total number of attendances at other indoor sports and leisure facilities excluding pools in a combined complex was 1.735m (1.611m in 2012/13)
- number of affordable houses developed was 266 (157 in 2012/13)
- proportion of offenders with supervision seen within 5 working days was 80.65% (65.44% in 2012/13)
- percentage of offenders with unpaid work who attended their first work placement within 7 working days of date of order was 42.38 (22.08 in 2012/13).

Assurance and improvement plan 2014-17

- 129.** The Assurance and Improvement Plan (AIP) covering the period 2014 to 2017 is the fifth AIP for Aberdeen City Council prepared by the Local Area Network (LAN) of scrutiny partners for the council since the introduction of the shared risk assessment process. The AIP including a scrutiny plan was published on Audit Scotland's website and was considered by the Audit and Risk Committee on 26 June 2014. The following paragraphs provide an update on the activities included in the scrutiny plan.
- 130.** The LAN concluded that Best Value follow up activity would be appropriate in winter 2014/15. An initial meeting of the Best Value audit team and the chief executive took place in October 2014 to discuss the potential scope and timing of the audit in early 2015.
- 131.** In May 2014, we reported our findings from follow up work carried out in respect of the Accounts Commission's 2011 report 'Arm's-Length External Organisations: Are you getting it right?' (the 2011 report). In particular, we highlighted the governance hubs as an example of good practice once embedded.
- 132.** In February 2014, a series of governance hubs were introduced which established a group of officers within each relevant service to consider performance information in respect of group companies and ALEOs. Overall responsibility for

scrutiny of performance falls within the revised remit of the Audit, Risk and Scrutiny Committee. While the framework for the hubs was agreed in February 2014, it has taken longer than anticipated for the council to commence a cycle of meetings which began in summer 2014.

- 133.** In most aspects of the follow up exercise, we considered previous practice to be 'basic and better' but once the governance hubs are operational and the new arrangements are embedded, they will meet the 'advance practice' criteria set out in the study methodology. The new arrangements should strengthen accountability for public money where service delivery has been transferred to an external body.
- 134.** The Care Inspectorate's review of children's services is currently in its fieldwork phase. They plan to report their findings in January 2015.

Performance audit reports

- 135.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. Nine reports were issued in 2013/14 as set out in Appendix II.

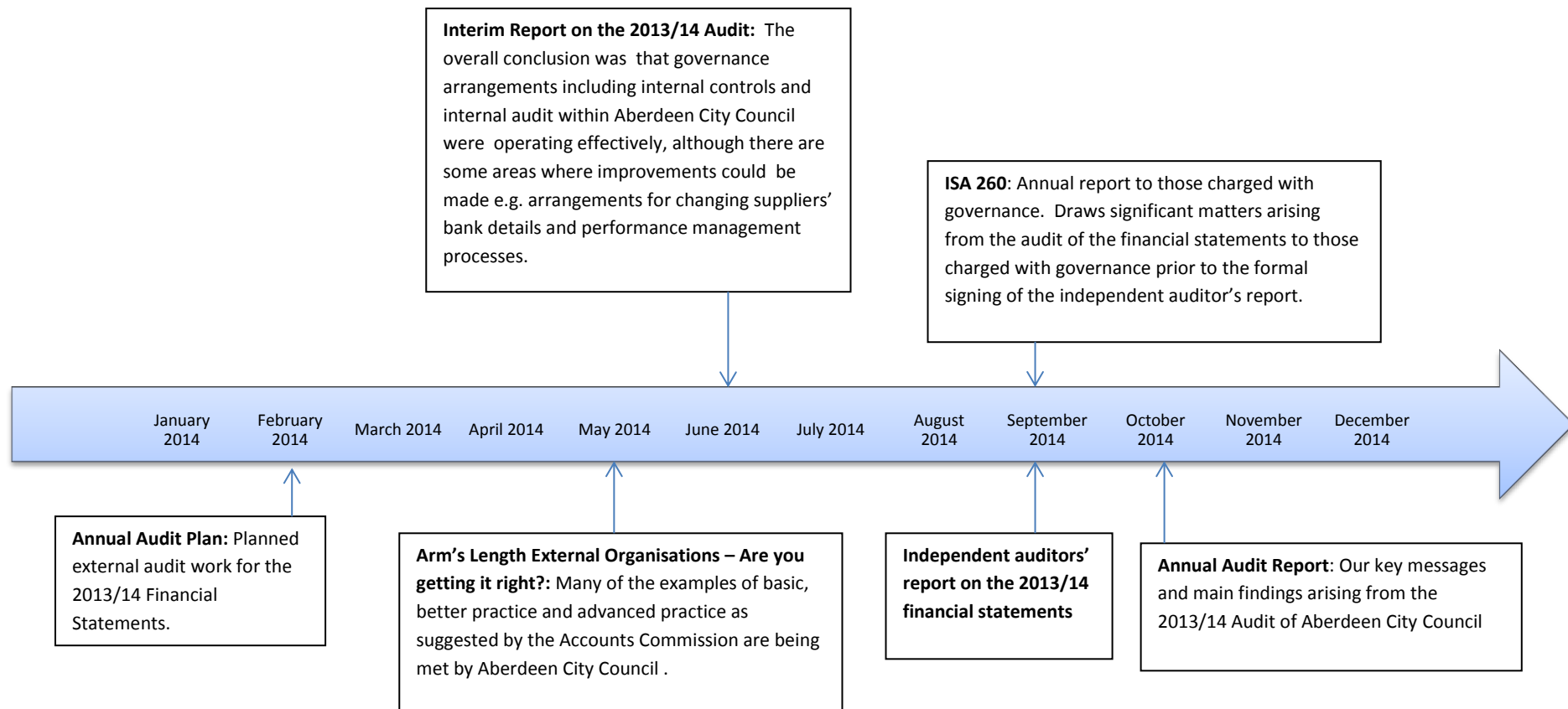
Best Value, use of resources and performance

136. In Aberdeen, a report highlighting the council's response to performance audit reports published in 2013 was considered by the Audit and Risk Committee in May 2014. The committee agreed that future study reports should be reported to the relevant service committee and that the Audit and Risk Committee should be provided with a summary of the actions agreed by those service committees.

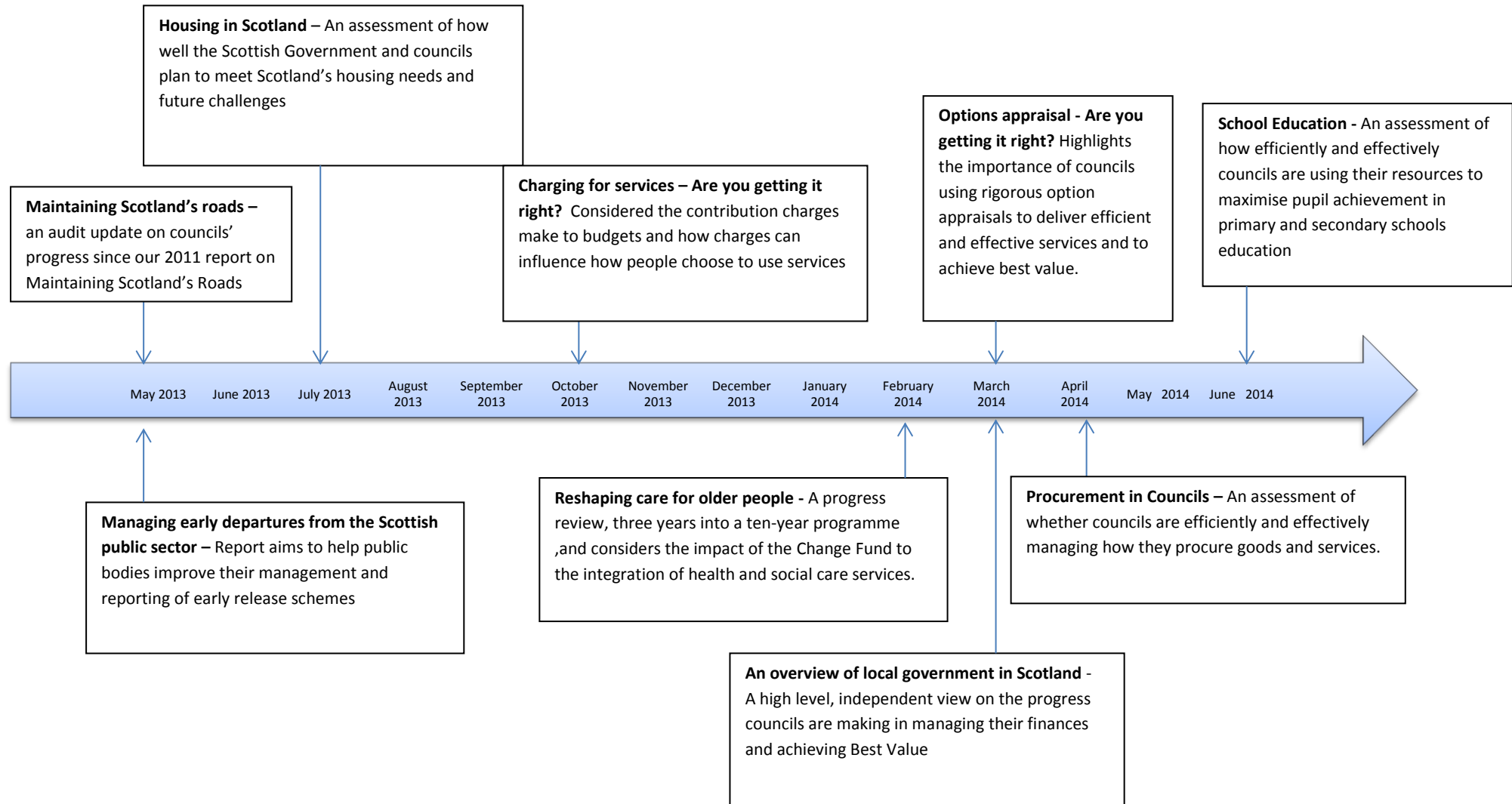
Outlook

137. In common with other councils, Aberdeen City Council faces the key challenges of increasing cost pressures, an aging population with higher levels of need and the public expectation of higher quality services. Savings have been made in recent years largely by managing staff vacancies. However as choices on how to address funding gaps becomes increasingly difficult, councils will have to focus on making the best use of all available resources and to challenge existing ways of doing things. A more effective performance management framework will assist the council in its decision making.

Appendix I – Summary of Aberdeen City Council local audit reports 2013/14



Appendix II – Summary of Audit Scotland national reports 2013/14



Appendix III – Significant audit risks

The table below sets out the key audit risks identified at the planning stage and how we addressed each risk in arriving at our opinion on the financial statements.

Audit Risk	Assurance procedure
Provisions There is a risk that the council is subject to further clawback by the DWP which may impact on the level of provision carried in the financial statements. Conversely, the ongoing need for any equal pay provision should be demonstrated. <i>Risk: provisions do not meet the criteria set out in the financial reporting standard</i>	• Early reporting to officers of findings from substantive testing of Housing Benefit cases as part of the HBCount methodology. This information was used to assess the reasonableness of the provision included in the financial statements. • Assumptions and estimates used by the council in calculating the level of provision required was considered and assessed.
Group entity changes There is a risk that changes in the group structure will not be properly disclosed in either the single entity or group accounts.	• A review was undertaken of the arrangements in place to establish Bon Accord Care and to gain an understanding of the services, assets and liabilities transferred across in summer 2013. Bon Accord Care and Bon Accord Support Services were set up as subsidiaries of the council and needed to be accounted for as part of group accounts. The Code did not require any additional disclosures in the accounts to reflect the transfer itself. • An early review of guidance was undertaken to identify the impact on group accounts of the transfer of police and fire services to central government. The transfer took place on 1 April 2013 and therefore prior year figures did not need to be restated although additional disclosures could be included in the accounts.

Appendix III – Significant audit risks

Audit Risk	Assurance procedure
Aberdeen Exhibition and Conference Centre The land transfer and debt write off are material transactions and due to their non-routine nature may not be correctly recorded in the financial statements. <i>Risk: there may be material misstatement in asset values and/or title to assets cannot be confirmed.</i>	Associated technical and legal documentation including valuations were reviewed to understand the transactions which took place and confirm the reasonableness of the treatment within the council's group accounts and the entity accounts for Mountwest and Aberdeen Exhibition and Conference Centre.
Capital investment Projects The council has a number of complex projects which will require careful consideration to ensure compliance with the Code. <i>Risk: significant transactions are not treated correctly in the financial statements leading to potential material misstatement in the results.</i>	- A watching brief is being maintained on the council's significant projects e.g. AWPR and Marischal Square. This included a review of associated documentation and discussion with officers. - Audit Scotland requested auditors to undertake targeted follow up work in respect of the performance audit study on Capital Investment. This work is nearing completion and will be reported in December 2014.
Budget savings and financial pressures There is a risk that expenditure is not contained within available resources and that the necessary efficiencies are not secured to meet the estimated shortfall. <i>Risk: there is an adverse impact on service provision and performance.</i>	As a routine part of the audit, ongoing monitoring of financial plans, assumptions and estimates was carried out. The story of the council's financial position for the year was brought together earlier within this report.

Appendix III – Significant audit risks

Audit Risk	Assurance procedure
Group governance A new framework is being implemented which will provide scrutiny and accountability at different levels in the organisation. Risk: <i>framework fails to have the necessary impact in practice.</i>	• The new arrangements were monitored as they evolved during the year and have been set out as a good practice example, in our report covering the findings arising from the targeted follow up work we completed, in relation to the performance audit ALEOs report.
ICT environment Important action needs to be taken to ensure a server hosting solution is secured and that the council continues to comply with cabinet office requirements for public service networks. Risk: <i>major disruption to service delivery if these arrangements fail.</i>	• Discussions were held with officers and documentation reviewed to provide us with a position statement in each of these significant areas i.e. the council's server hosting contract and its compliance with Cabinet Office requirements for access to the public service network.

Appendix IV – Action plan

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
1/18	Financial position The council has a significant task ahead in meeting the funding gap set out in its 5 year business plan. <i>Risk: the ongoing need to deliver savings may have an adverse impact on services and the delivery of strategic priorities.</i> Recommendation: the council continues to monitor progress in delivering savings in agreed budget areas and taking early action where necessary.	The council's rigorous approach to financial planning and the Corporate Management Team's regular review of savings performance provides a robust framework with which to monitor the delivery of savings.	Head of Finance, in conjunction with the Corporate Management Team	Update position in February 2015
2/23	Local Authority Trading Company for Adult Social Care Services (Bon Accord Care) The local authority trading company commenced services to elderly adults through care homes and care at home services in August 2014 but formal scrutiny of performance information on the delivery of those services has just commenced. <i>Risk: services are not being delivered in line with council's expectations.</i> Recommendation: Scrutiny arrangements agreed by the council should be implemented to ensure that performance targets and agreed efficiency measures are being met.	Membership of the Shareholder Scrutiny Group and the schedule of meetings have been agreed. The first meeting is scheduled for November 2014.	Transitional Director	First meeting November 2014. Will be reviewed as it evolves.

Appendix IV – Action plan

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
3/24 - 25	Integration of adult health and social care The arrangements for establishing the integration Joint Board are currently on schedule and should gather pace with the appointment of the chief officer. The council needs to continue to build effective relationships with NHS Grampian to ensure delivery of the integration timetable. <i>Risk: the statutory timetable for introduction of the Joint Board is not met.</i> Recommendation: regular communication and engagement should continue between the Transitional Leadership Group/Shadow Joint Board, the chief executive and the Education and Children's Services Committee to ensure momentum is maintained.	Both parties will continue to work together to deliver the integration agenda.	Chief Officer (Health and Social Care Integration)	1 April 2015 for Shadow Board

Appendix IV – Action plan

Action plan point/page	Issue, risk and recommendation	Management action/response	Responsible officer	Target date
4/28 - 29	Performance management We reported inconsistencies in the performance information reported to committee both in terms of frequency and currency of reporting and the comparative information used. We also reported that 'Aberdeen Performs' should be updated with information to assess how the council, its partners and services are performing. <i>Risk: Poor performance is not promptly identified and corrective action cannot be taken timeously. Public performance reporting is not easily accessible for users.</i> Recommendation: Performance reports, both council wide and at service level, should be presented timeously with comparable information to improve overall scrutiny and public performance reporting.	The Corporate Performance Management Group is reviewing performance reporting and will make recommendations as required.	Community Planning & Corporate Performance Manager	March 2015

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5/30 - 31	Housing/homelessness and Roads Our review of performance information identified specific areas where performance is below target. The time taken to re-let properties was almost double the target number of days, the number of days to support a homeless case continued to increase and urgent road repairs completed within timescales have dropped significantly against the previous year. <i>Risk: performance remains low, the council's strategic objectives are not met and service users are not receiving a proper service.</i> Recommendation: The reasons for poor performance need to be addressed as a high priority with regular monitoring by officers and members to ensure good progress is made.	Relets Where appropriate properties have been upgraded to SHQS standard between lets. While this has extended the vacant period, it has also minimised tenant disturbance. On target for full SHQS compliance by 2015. There are a number of hard to rent properties which have skewed the results Recruiting and retaining sufficient tradesmen to meet the demand of void repairs has proved difficult in Aberdeen's buoyant economy. Plans are in place to reallocate resources from other jobs to prioritise voids. Longer term, the council has a 'Housing for Varying Needs' Strategy which is aimed at making more effective use of sheltered housing complexes which currently have little or no demand. Homelessness In addition to the impact of voids, there is ongoing pressure on availability of bet-sit and one bedroom apartments. These continue to be closely monitored.	Director of Community and Infrastructural Services	Already in operation and will be regularly monitored

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		Roads Overall performance dropped significantly due to sickness absence and plant failures. In addition, there was an increase in reported faults. We have restructured the squads and taken on additional staff to provide a 24/7, 365 day response team. This squad will be trained to carry out all repairs although it is expected to take 12-24 months before they will be fully trained. We believe this will ultimately provide improved service delivery In order to have more useful and meaningful measurement of performance, new seasonal targets have been established for the % of repairs carried out within the required timescales, which take into account holiday periods and the time of year. These will be further modified as the Response Team takes over the maintenance role.	General Manager Operations / Roads Operations Manager Communities, Housing and Infrastructure	Already in operation and will be regularly monitored