

Aberdeen City Council

ALEO Tier 2 Review

Final Report

Internal Audit Report
2014/2015 for Aberdeen
City Council

February 2015

	Target Dates per agreed Internal Audit Charter	Actual Dates	Red/Amber/Green and commentary where applicable
Terms of reference agreed 4 weeks prior to fieldwork	22 September 2014	10 October 2014	Red – delay in getting contact details of key contacts
Planned fieldwork start date	20 October 2014	20 October 2014	Green
Fieldwork completion date	7 November 2014	7 November 2014	Green
Draft report issued for Management comment	24 November 2014	21 November 2014	Green
Management Comments received	8 December 2014	3 December 2014 8 December 2014 28 January 2015 13 February 2015	Amber – delays in receiving comments from a key contact due to other work commitments.
Report finalised	13 February 2013	13 February 2015	Green
Submitted to Audit and Risk Committee	26 February 2015	26 February 2015	Green

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This report has been prepared solely for Aberdeen City Council in accordance with the terms and conditions set out in our engagement letter. We do not accept or assume any liability or duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without our prior written consent.

Internal audit work will be performed in accordance with Public Sector Internal Audit Standards. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

1. Executive Summary

Report classification	Total number of findings					Section 3
High risk	Critical	High	Medium	Low	Advisory	
	Control design	-	2	3	-	-
	Operating effectiveness	-	-	-	-	-
	Total	-	2	3	-	-

Summary of findings

- 1.01 As public spending pressures remain across local government in Scotland, there is a continued focus on ensuring that authorities are maximising their funding to secure effective and efficient services for local people. This principle extends beyond the services provided by the authorities themselves, to services provided by external organisations that support meeting the Council objectives.
- 1.02 In 2012/13 a review of the Tier 1 ALEOs; (AECC, Sport Aberdeen, Aberdeen Sports Village and Bon Accord care) was performed by Internal Audit. The report highlighted 4 high and 2 medium risk recommendations to improve the governance and scrutiny arrangements in place. The implementation of these recommendations is monitored through the quarterly follow up reported to Audit and Risk Committee.
- 1.03 It has been agreed with management that arrangements in place over Tier 2 ALEOs should now be subject to review. Aberdeen Heat and Power and Aberdeen Performing Arts have been identified, due to their size, as the two ALEOs most appropriate for review.
- 1.04 Management are still in the process of implementing the recommendations made following the review of Tier 1 ALEOs, and therefore the findings of this review provide an additional opportunity to further improve the framework in place for Tier 2 ALEOs. Overall our review has noted two high risk findings in relation to the arrangements for Tier 2 ALEOs:
- **Lack of consideration of risks posed to the Council** – we found that there is a lack of consideration of the risks posed to the Council from its relationships with Aberdeen Heat and Power and Aberdeen Performing Arts. As a consequence, there is a lack of clarity as to whether the current monitoring arrangements in place are proportionate to the risk posed to the Council. There is therefore the need for the Council to formally assess the risks posed by ALEOs to the Council. (Finding 3.1)

- **The requirement to update the current Following the Public Pound guidance** – we found that the current guidance in place dictates the governance arrangements for each ALEO based on funding levels alone, as opposed to the overall risk profile of the organisation. In addition we found that several of the requirements within the current guidance document are not operating in respect of Aberdeen Heat and Power and Aberdeen Performing Arts (Finding 3.2).
- 1.05 We have noted a further 3 medium risk findings which require to be addressed in order that governance arrangements for Tier 2 ALEOs are capable of adequately managing risks faced by the Council.
- 1.06 Please note that the findings within this report are in relation to the processes and controls operated within the Council. Process and controls operated within the ALEOs did not fall within the scope of this review and internal audit have not investigated these, nor have we a view upon them.

Management comments

Management welcome the review of Tier 2 ALEO's which builds on the Tier 1 review and note the findings. Taken together, the implementation of the action plans for both reviews will further enhance the overall framework in place for ALEOs. A number of the actions arising from this review relate to updating the Following the Public Pound guidance and this process is already underway and will be consulted on and implemented within the timescales contained within the report.

2. Detailed findings and recommendations

2.01 Lack of consideration of risks posed by each ALEO to the Council– Control design

Finding

At present there is a lack of consideration of the risks posed to the Council from its relationships with Aberdeen Heat and Power and Aberdeen Performing Arts, or the delivery of services through these vehicles. Whilst each entity maintains risk registers and has risk management processes in place in order to manage risk locally, this is not done from within the Council. It should be acknowledged that when an ALEO is first set up the risks to the Council will have been considered; however there is no on-going assessment, recording and management of this.

Key risks from these relationships identified by internal audit include:

- Failure of Aberdeen Performing Arts to suitably maintain the Council assets it leases, leading to financial loss, health and safety risks, and negative impact on service delivery. There is also a risk that the Council is not supportive of the arts programme delivered;
- Failure of Aberdeen Heat and Power to suitably maintain the district heating system, leading to financial loss and negative impact on service delivery;
- Absence of robust financial management procedures in either entity, leading to inefficient use of Council funds; and
- Absence of a sound control environment in either entity leading to poor service delivery or financial loss.

The Audit Scotland best practice guidance identifies understanding of risk as the key underpinning principle which should dictate a reasonable and proportionate programme of governance for each local authority ALEO. At present, the only risk formally assessed by the Council in relation to the governance of ALEO's is financial loss. This is due to the requirement of the Following the Public Pound Guidance. In the absence of an understanding of the wider risks posed by each, it is impossible to determine a suitable governance framework in order to manage the risks proportionately.

Risks

Absence of an understanding of the risks posed by each entity leads to an inability to suitable manage or mitigate risks posed, resulting in negative financial or service implications for the Council.

Action plan		
Finding rating	Agreed action	Responsible person / title
High	<p>Management will consider the wider risks posed by ALEO's to the Council to ensure that this area of risk is included in the corporate risk register / service risk registers. Risks may include financial, health & safety, reputational and service delivery.</p> <p>The level of risk posed by an ALEO to the Council will determine the governance arrangements that will apply and this will be incorporated into a revision of the Following the Public Pound guidance.</p>	<p>Performance & Risk Manager</p>
		<p>Target date:</p> <p>30 September 2015</p>

2.02 Following the Public Pound guidance– Control design and Operating effectiveness

Finding		
<p>The Council's current Following the Public Pound guidance requires review and updating to ensure that it is capable of directing proportionate governance across the Council's ALEO portfolio and that it is capable of operating in practice.</p> <p>Our review of the current guidance confirmed that the governance route for each ALEO is dictated only by the financial contributions made by the Council, as opposed to the full risk profile of the relevant organisation. Audit Scotland's report states:</p> <p><i>“Lower levels of expenditure can be relatively high risk due to the nature of services they provide. Conversely, higher expenditure areas may not have such high operational risks but councils should regularly monitor them as the impact of failure on council finances and service users would be substantial.”</i></p> <p>In addition, our review of the arrangements in place for Aberdeen Heat and Power and Aberdeen Performing Arts confirmed that the monitoring requirements of the Following the Public Pound document are not currently operating in practice. This was demonstrated by the following:</p> <ul style="list-style-type: none"> • We were unable to obtain evidence of completed appendices containing checklists for operational and financial reviews required by the guidance; • We were unable to obtain evidence that the relevant financial procedures had been reviewed and retained by the Council; and • We were unable to obtain evidence of annual reports being submitted to monitoring committees. 		
Risks		
<p>Absence of a governance framework which reflects the full risk profile of an ALEO may lead to a level of monitoring which is insufficient to adequately manage risks posed.</p> <p>Failure to implement Council monitoring arrangements may result in an inability to identify and address financial, reputational, operational issues on a timely basis.</p>		
Action plan		
Finding rating	Agreed action	Responsible person / title
High	Management will revise the Following the Public Pound guidance to include reference to the alternative risks posed by the Council engaging with ALEO's and ensure that increased risks results in increased scrutiny where appropriate.	Corporate Accounting Manager
	Management will remind monitoring officers that they must complete all elements of monitoring prescribed by the guidance.	
		Target date:
		30 September 2015

2.03 Governance arrangements for ALEOs which do not receive direct funding– Control design

Finding		
<p>At present there is a lack of clarity regarding the governance arrangements required for ALEOs which do not receive direct Council funding, but which do play a key role in the delivery of strategic objectives and over which the Council exercises control through board representation.</p> <p>An example of this is Aberdeen Heat and Power who play a key role in the delivery of affordable warmth for both Council tenants and other customers within Aberdeen city. The Council recognises the group relationship that exists between it and Aberdeen Heat and Power and as a result details of the organisational performance are included in the Council's Annual Statement of Accounts. However, the Council's Following the Public Pound guidance excludes Aberdeen Heat and Power due to the fact it does not receive direct funding.</p> <p>The relationship with Aberdeen Heat and Power has evolved over time without consideration of an appropriate monitoring framework. In the past communications with the Council were informal and unrecorded, and there was no programme of reporting to Council committees. In recent months the Energy Manager within the Council has sought to formalise and record monitoring that takes place, however there remains an uncertainty as to whether the current monitoring arrangements are sufficient, or indeed necessary.</p>		
Risks		
<p>Absence of a clear governance framework which is capable of addressing the nuances of all Council ALEOs may lead to arrangements taking place which are not sufficient to manage the risks posed to the Council, or which are unnecessary in the event of low levels of risk faced.</p>		
Action plan		
Finding rating	Agreed action	Responsible person / title
Medium	Management will revise the Following the Public Pound guidance to include reference to ALEO's that do not receive direct grant funding so as to establish suitable governance arrangements for these.	Corporate Accounting Manager
		Target date:
		30 September 2015

2.04 Ensuring Councillors and Officers are in receipt of appropriate training before undertaking ALEO roles – Control Design

Finding
<p>There is no requirement for Councillors or monitoring officers to undertake training to fully equip them to understand and execute their roles in relation to ALEOs. There is an external training programme offered by the Council to elected members which outlines their responsibilities where they hold dual roles as both Councillors and company directors; however this is voluntary and participation levels are very low. We found that when the programme was last run in 2012, only nine elected members in total attended and only one of the six elected members who sit on the Boards of Aberdeen Heat and Power and Aberdeen Performing Arts.</p> <p>It was noted that Aberdeen Performing Arts run their own Board member inductions which outline the roles of company directors under the Company’s Act. However, the Council cannot rely on each ALEO running their own sessions, nor would such sessions address the nuances of the role of a Councillor acting as a company director.</p> <p>In addition, there is no training available for monitoring officers who undertaken the role of oversight of ALEOs. This role involves a significant level of judgement, the ability to interrogate financial statements, respond to risk and assess internal governance arrangements. It may be the case that the experience of monitoring officers does not encompass such skills, and that training is required to ensure that this role is undertaken effectively.</p>
Risks
<p>Absence of appropriate training of elected members may result in an inability to execute their role in accordance with relevant legislation and the Councillors’ Code of Conduct.</p> <p>Absence of appropriate training of monitoring officers may result in ability to effectively monitor ALEOs and escalate issues to Council committees as appropriate.</p>

Action plan		
Finding rating	Agreed action	Responsible person / title
Medium	1. Elected Members will be advised that participation in the external training programme run by the Council will be mandatory for those who hold director or trustee roles on ALEO boards.	Team Leader, HR&OD
	2. All monitoring officers will be advised that they are required to undertake suitable training and to make use of expertise available in the Council, as determined by management, to enable them to fully execute their duties as set out in the Following the Public Pound guidance.	Target date: 1. 31 March 2016 2. 31 December 2015

2.05 Ensuring governing documents are subject to a regular programme of review – Control design

Finding		
<p>There is no requirement to periodically review the service level agreements (SLA) and other governing documents for each ALEO to ensure that they remain appropriate and continue to operate in practice. As a result, it was noted that the SLA between the Council and Aberdeen Performing Arts contains principles which are not operating in practice, nor are they considered by relevant personnel as appropriate in the current arrangements. Specifically we noted the following:</p> <ul style="list-style-type: none"> The SLA requires that all purchase orders exceeding a value of £25,000 be countersigned by an elected member. This does not take place in practice, nor do the monitoring officer or CEO of Aberdeen Performing Arts consider this a practical or necessary check given the elected members' roles as non-executive directors. The SLA also requires that the business plan for Aberdeen Performing Arts is approved by the Council. This does not take place in practice; the monitoring officer receives and reviews the annual business plan but this is not reported to or approved by the Council or sub-committee. Once again the monitoring officer and CEO do not consider this a practical approach given that Aberdeen Performing Arts is accountable to a number of other funding bodies and could not produce a business plan which is subject to approval from each. 		
Risks		
<p>Absence of periodic review of ALEO governing documents may lead to practices evolving over time which are not consistent with original requirements, resulting in a governing document which is redundant.</p>		
Action plan		
Finding rating	Agreed action	Responsible person / title
Medium	Management will revise the Following the Public Pound guidance to include reference to the periodic review of ALEO governance documents that have been put in place between the Council and the ALEO (e.g. SLA's).	Corporate Accounting Manager
		Target date:
		30 September 2015

Appendix 1 – Aberdeen City Council ALEO and FPP contributions 2014/15

Table 1.1

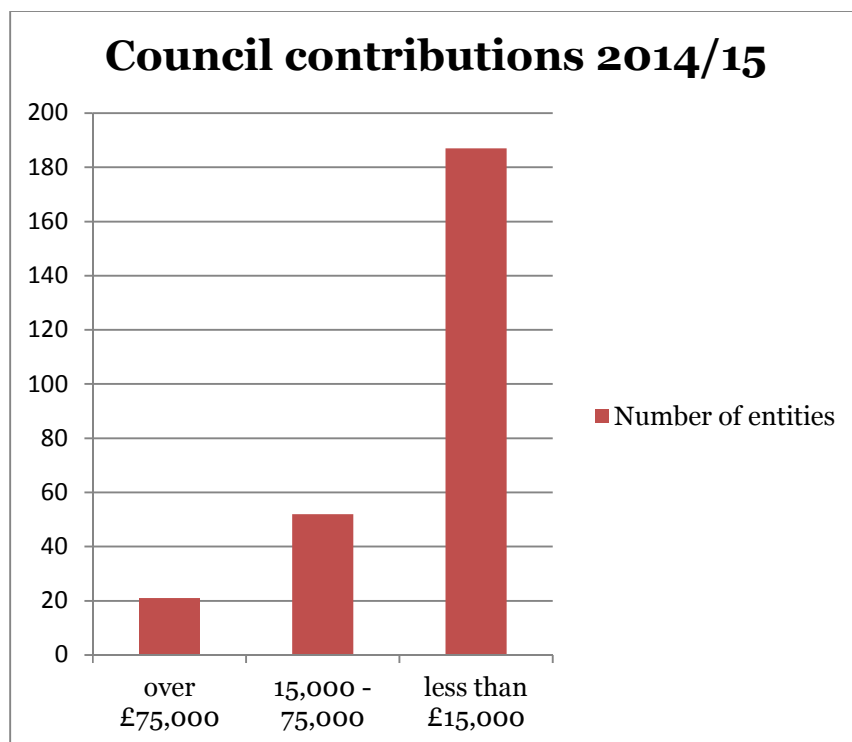


Table 1.1 represents the number of ALEOs per contribution level

Table 1.2

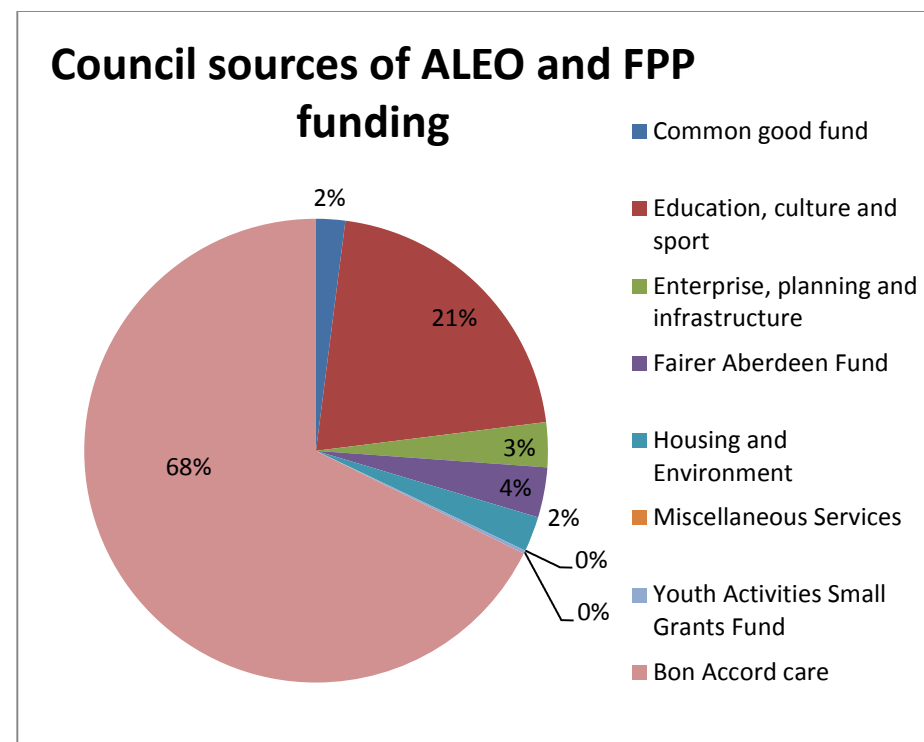


Table 1.2 represents the source of ALEO and FPP contributions within internal Council budgets

Appendix 2 – ALEO profile: Aberdeen Performing Arts

(1) Annual Council spend	C. £900,000 per annum	(6) Internal governance arrangements	Management Board and three sub-committees
(2) Key relationship(s) with Aberdeen City Council	<ol style="list-style-type: none"> 1. Council has representation on the management board of APA 2. Council provides annual grant funding to APA 3. Council leases three cultural venues to APA 	(7) Relevant Council monitoring committee	Formally the Culture and Sport sub-committee, however during the recent restructure this has been disbanded and no clear substitute has been appointed.
(3) Legal status	Company limited by guarantee and registered charity.	(8) Council appointed monitoring officer	Cultural Policy and Partnership Manager
(4) Primary governing documents	<ol style="list-style-type: none"> 1. Memorandum of Agreement and Articles of Association 2. Service Level Agreement between the Council and APA 3. Annual grant funding letter from Council 4. Property leases for each property rented to APA 	(9) Arrangements compliant with Following the public pound?	No – please refer to finding 3.02
(5) Board representation	Four elected members	(10) Arrangements compliant with Audit Scotland best practice?	No – please refer to finding 3.01

Appendix 3 – ALEO profile: Aberdeen Heat and Power

(1) Annual Council spend	C. £2.2m (dependent on capital project activity)	(6) Internal governance arrangements	Management Board and two sub-committees
(2) Key relationship(s) with Aberdeen City Council	<ol style="list-style-type: none"> 1 Council has representation on the management Board of AHP 2 Council is a customer of AHP through its provision of heating to Council tenants 3 Council utilises AHP services as a contractor in further extending the district heating network across the city 	(7) Relevant Council monitoring committee	No nominated monitoring committee
(3) Legal status	Company limited by guarantee	(8) Council appointed monitoring officer	No formally appointed officer but role is undertaken on an informal basis by the Energy Manager.
(4) Primary governing documents	<ol style="list-style-type: none"> 1 Company articles of association 2 Framework agreement for the provision of heat services to Council tenants 3 Individual installation agreements for each capital project 	(9) Arrangements compliant with Following the public pound?	No – please refer to finding 3.02
(5) Council Board representation	Two elected members	(10) Arrangements compliant with Audit Scotland best practice?	No – please refer to finding 3.01

Appendix 4 – Background and Scope

Background

- 2.01 As public spending pressures remain across local government in Scotland, there is a continued focus on ensuring that authorities are maximising their funding to secure effective and efficient services for local people. This principle extends beyond the services provided by the authorities themselves, to services provided by external organisations to meet council objectives.
- 2.02 The Accounts Commission produced a report in June 2011 “Arm’s length organisations (ALEOs): Are you getting it right?” which included a number of key messages:
- Governance for ALEOs can be complex, strong and effective governance is required from outset;
 - Clarity about roles and responsibilities is vital; and
 - Monitoring of ALEOs should be risk based and proportionate;
- 2.03 The Accounts Commission define an ALEO as:
- “companies, trusts and other bodies that are separate from the local authority but are subject to local authority control or influence. Control or influence can be through the council having representation on the board of an organisation, and/or through the council being a main funder or shareholder of the organisation.”*
- 2.04 The national report emphasised the importance of Councils periodically reviewing their ALEOs to ensure effective governance is in place. In 2012/13, a review of the Tier 1 ALEOs; AECC, Sport Aberdeen, Aberdeen Sports Village and Bon Accord Care) was performed by Internal Audit. The report highlighted 4 high and 2 medium risk recommendations to improve to the governance and scrutiny arrangements in place. The implementation of these recommendations is monitored through the quarterly follow up reported to Audit and Risk Committee.
- 2.05 It has been agreed with management that arrangements in place over Tier 2 ALEOs should now be subject to review. Aberdeen Heat and Power and Aberdeen Performing Arts have been identified, due to their size, as the two ALEOs most appropriate for review.

Background to ALEOs

- 2.06 ACC revised their Local Code of Practice on “Following the Public Pound” in October 2011. The document sets out principles of best practice when establishing funding relationships with an arm’s length body and provides a financial review process and checklist setting out details of specific financial checks required. The governance arrangements established under this guidance are dependent on the financial contributions made by the Council. Where the funding is greater than £75,000 the Local Code requires:
- A detailed one year financial plan and summary three year financial plan for each period that funding is being granted;

- A check every two years to ensure the organisation has adequate policies and procedures to govern the way its finances are handled;
- An annual check to ensure that the projections in the financial plan are realistic and achievable and that sufficient cash exists to enable the organisation to meet its financial obligations for at least the next 12 months;
- An annual check that other sources of material funding are secure and assess any risks relevant to the ability of the organisation to continue as a going concern; and
- Ongoing checks on the six monthly management accounts to ensure that there is sufficient cash to meet the organisation's outgoings for the forthcoming year.

Aberdeen Heat and Power

- 2.07 Aberdeen Heat & Power Ltd is a 'not for profit' company that was set up by Aberdeen City Council in 2002 to develop and operate district heating and CHP (Combined Heat & Power) schemes in their area. Combined Heat and Power (CHP) is a system whereby electricity is generated locally for sale and the heat emitted by the generator is captured and used to heat properties instead of being released to the atmosphere. The scheme has grown through three principal projects (Seaton, Hazelhead and Stockethill) and now supplies around 1530 flats in 22 multi-story blocks and 9 public buildings. Carbon emissions from these buildings have reduced by 45% and typical fuel costs to tenants have been reduced by 50% compared to the previous heating system. Please refer to Appendix 1 for a detailed profile of Aberdeen Heat and Power.

Aberdeen Performing Arts

- 2.08 The Aberdeen Performing Arts is a charitable trust founded in 2004 to take over the running and management of entertainment venues from Aberdeen City Council. Aberdeen Performing Arts manages His Majesty's Theatre, Music Hall, The Lemon Tree and a box office selling tickets for venues across Scotland. Aberdeen City Council contributes c. £900,000 per annum to Aberdeen Performing Arts. Please refer to Appendix 2 for a detailed profile of Aberdeen Performing Arts.

Scope and Objectives

- 2.09 The overall objective of this review is to consider the design and operation governance arrangements in place for the Tier 2 ALEOs: Aberdeen Heat and Power and Aberdeen Performing Arts. Our review focused on the following themes:
- How governance arrangements operate in practice;
 - The Council is sighted on financial governance, and is provided with required information to promote good financial governance;
 - Clarity on roles and responsibilities – ALEO and Council;
 - Applying best value principles;
 - Councilor and Officer support, including advice and training; and
 - Performance monitoring arrangements, including scrutiny arrangements and corporate visibility of arrangements across the Council.

Appendix 5 – Agreed Terms of reference

Background

The Accounts Commission produced a report in June 2011 “Arm’s length organisations (ALEOs): are you getting it right?” which included a number of key messages:

- Governance for ALEOs can be complex, strong and effective governance is required from outset;
- Clarity about roles and responsibilities is vital; and
- Monitoring of ALEOs should be risk based and proportionate;

The national report emphasised the importance of Council’s periodically reviewing their ALEOs to ensure effective governance is in place. In 2012/13 a review of the Tier 1 ALEO’s; AECC, Sport Aberdeen, Aberdeen Sports Village and LACT) was performed by Internal Audit. The report highlighted 4 high and 2 medium risk recommendations to improve to the governance and scrutiny arrangements in place. The implementation of these recommendations is monitored through the quarterly follow up reported to Audit and Risk Committee.

It has been agreed with management that arrangements in place over Tier 2 ALEO’s should now be subject to review. Aberdeen Heat and Power and Aberdeen Performing Arts have been identified as the two ALEO’s most appropriate for review.

Aberdeen Heat and Power

Aberdeen Heat & Power Ltd is a ‘not for profit’ company that was set up by Aberdeen City Council in 2002 to develop and operate district heating and CHP (Combined Heat & Power) schemes in their area. Combined Heat and Power (CHP) is a system whereby electricity is generated locally for sale and the heat emitted by the generator is captured and used to heat properties instead of being released to atmosphere. The scheme has grown through three principal projects (Seaton, Hazlehead and Stockethill) and now supplies around 1530 flats in 22 multi-story blocks and 9 public buildings. Carbon emissions from these buildings have reduced by 45% and typical fuel costs to tenants have been reduced by 50% over the previous heating system.

Aberdeen Performing Arts

Aberdeen Performing Arts is a charitable trust founded in 2004 to take over the running and management of entertainment venues from Aberdeen City Council. Aberdeen Performing Arts manages His Majesty’s Theatre, Music Hall, The lemon Tree and a box office selling tickets for venues across Scotland. Aberdeen City Council contributes c. £900,000 per annum to Aberdeen Performing Arts.

Scope

The overall objective of this review is to consider the governance arrangements in place for the Tier 2 ALEOs: Aberdeen Heat and Power and Aberdeen Performing Arts. Our review will focus on core themes:

- Establishing good governance and how governance arrangements operate in practice;
- Ensuring that the Council is sighted on financial governance, and is provided with required information to promote good financial governance;
- Clarity on roles and responsibilities – ALEO and the Council;
- Applying best value principals;
- Councillor and Officer support, including advice and training; and
- Performance monitoring arrangements, including scrutiny of arrangements and visibility of arrangements across the Council

Limitations of scope

The scope of our work is outlined above, and will only focus on the 2 ALEOs listed.

Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Audit approach

Our audit approach is as follows:

- Obtain an understanding of the key governance arrangements in place at each ALEO, using the Audit Scotland good practice questionnaire and assessment (as set out in Appendix 1)
- Meet with the relevant Chief Executive/Accountable Officer/Senior Management at the ALEOs to discuss the governance arrangements in place
- Review of supporting documentation, considering how the arrangements meet recommended practice and the Council's Following the Public Pound guidance including review of Committee Membership, reporting to and from the Council, standing financial instructions, scheme of delegation, management reporting, registers of interest and conflicts of interest

Appendix 6 - Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken a review of Tier 2 ALEOs, subject to the limitations outlined below.

Internal control

Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls relating to Tier 2 ALEOs is as at October 2014. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

In the event that, pursuant to a request which Aberdeen City Council has received under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the “Legislation”), Aberdeen City Council is required to disclose any information contained in this document, it will notify PwC promptly and will consult with PwC prior to disclosing such document. Aberdeen City Council agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation. If, following consultation with PwC, Aberdeen City Council discloses any this document or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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