

ABERDEEN CITY COUNCIL

COMMITTEE: Audit, Risk & Scrutiny
DATE: 25 June 2015
INTERIM DIRECTOR: Angela Scott
TITLE OF REPORT: Unaudited Annual Accounts 2014/15
REPORT NUMBER: CG/15/83
CHECKLIST COMPLETED Yes

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide Elected Members with an overview of the Council's 2014/15 unaudited Annual Accounts.
- 1.2 To enable scrutiny of and approval by the Committee on the content of the Annual Governance Statement. The statement has been included in the 2014/15 unaudited Annual Accounts subject to this approval.
- 4.3 The report also provides the unaudited Annual Accounts for those registered charities where the Council is the sole trustee and is subject to statutory requirements for separate accounts and audit opinions.

2. RECOMMENDATION(S)

- 2.1 It is recommended that the Committee:
 - a) approve the Annual Governance Statement as included in the Council's unaudited Annual Accounts for the financial year 2014/15;
 - b) consider the Council's unaudited Annual Accounts 2014/15, paying particular attention to the sections highlighted in paragraph 5.4;
 - c) consider the unaudited Annual Accounts 2014/15 of the Council's registered charities;
 - d) note that following this meeting the Council's and the registered charities unaudited Annual Accounts will be finalised, signed and submitted to Audit Scotland by 30 June 2015;
 - e) note that as now required by statute, the Audit, Risk & Scrutiny Committee on 29 September 2015 will receive the Council's audited Annual Accounts for consideration and approval prior to their signature by the Head of Finance, Chief Executive and Council Leader;

- f) note that the Audit, Risk & Scrutiny Committee of 29 September 2015 will also receive the external auditor's "Combined Annual Report and Report to Those Charged with Governance on the 2014/15 audit" for debate and consideration and that this report will set out the auditor's finding and conclusions from all audit activity undertaken during the year, highlight the significant issues arising from the audit of the annual accounts and inform Elected Members of the proposed audit opinion in advance of the accounts being certified; and
- f) note that the Audit, Risk & Scrutiny Committee on 29 September 2015 will also receive the audited Annual Accounts for the registered charities for consideration and approval prior to their signature along with the associated external auditor's report.

3. FINANCIAL IMPLICATIONS

- 3.1 There are no direct financial implications arising from this report.
- 3.2 The overall financial position of the Council was reported to and considered by the Finance, Policy & Resources Committee on 9 June 2015 and is available via: <http://committees.aberdeencity.gov.uk/documents/s47474/FPR%20Year%20End%20Report%20FINAL%20ISSUED.pdf>

4. OTHER IMPLICATIONS

- 4.1 The preparation of the Annual Governance Statement is a part of the Council's compliance with the CIPFA/SOLACE guidance on 'Delivering Good Governance in Local Government'.
- 4.2 There is a statutory requirement for the Council to produce both unaudited and audited Annual Accounts within certain timescales and to a high standard. This is a major task which requires co-operation and input from a large number of people across all services of the Council. It is only with the commitment of all staff that these high standards and deadlines can be met.

5. REPORT

5.1 Annual Governance Statement

- 5.1.1 The Local Authority Accounts (Scotland) Regulations 2014 specify that the Annual Accounts must include an Annual Governance Statement (AGS).
- 5.1.2 The AGS should be produced in accordance with proper accounting practices and the CIPFA/SOLACE Framework: Delivering Good Governance in Local Government.
- 5.1.3 The Council has developed its approach to the annual governance review process and in 2014/15 has again undertaken a self-evaluation of the effectiveness of the Local Code of Corporate Governance.

- 5.1.4 There are different layers of assurance that have been considered and used in determining the content of the AGS. These include management assurance, the internal audit assurance framework, and the consideration of external audit and external scrutiny.
- 5.1.5 Management assurance includes the certification of internal controls and assurance by all Heads of Service, along with an assurance statement having been received by, or on behalf of, the Chief Executive of the group entities.
- 5.1.6 Further confidence is based on the operational structure and legislative framework that exists for the Council, including the continuity that has been maintained in relation to statutory posts throughout the year.
- 5.1.7 The Standing Orders, Terms of Reference and Scheme of Delegation define the roles and responsibilities for officers and Elected Members.
- 5.1.8 Development of the system of risk management has continued throughout the year and the Committee has received a range of reports on progress in this respect.
- 5.1.9 The accounting team work closely with budget holders to ensure that a positive relationship exists and there is openness and transparency about decision making and the financial implications.
- 5.1.10 Management assurance has also been used in considering the progress that has been made around the nine significant issues identified in last years' statement. During 2014/15, sufficient progress has been made in addressing six issues such that they have been removed. For the remaining three, whilst progress has been made management feel they have not yet been fully completed and therefore require to be kept on the AGS for 2014/15. These are described below in paragraphs 5.1.11 – 5.1.13.
- 5.1.11 Significant progress in setting up the framework for scrutiny of arm's length external organisation has been made with some reporting to the Shareholder Scrutiny Group in relation to Bon Accord Care. In addition, formal governance hubs have been established which will meet twice yearly and report thereafter to committee. This is a substantial step forward which will see the first of these hubs meeting in June 2015. As work is also ongoing in relation to the identification and consideration of the risks to the Council from its relationship with such organisations, officers believe this issue should remain on the AGS.
- 5.1.12 Contract management practices in Social Care & Wellbeing were identified as requiring improvement to address gaps in information and performance management data. Whilst procedures have been implemented to address the recommendations of the audit with significant progress having been made towards having contracts in place for all services, this will continue during 2015/16 and thus remains on the AGS.

- 5.1.13 A national investigation in relation to allegations made regarding baby and adult cremations including those at Hazlehead Crematorium is being undertaken. The outcome and recommendations arising from this investigation will be reported in due course and meantime this issue remains on the AGS.
- 5.1.14 In undertaking a self-evaluation of the Council's effectiveness of its governance framework a number of officers have reviewed the Local Code using the CIPFA/SOLACE checklists and drawn judgements on the extent to which the Council is effectively complying with the code.
- 5.1.15 The results of this were positive as each question on the checklist was able to be evaluated as being compliant with the local code requirements.
- 5.1.16 Independent scrutiny is undertaken by the Internal Audit function, which was carried out by Pricewaterhouse Coopers LLP. They have consistently provided management and the Committee with recommendations on improvements that can be implemented for the benefit, amongst other things, of the control environment.
- 5.1.17 The annual report from the Head of Internal Audit on the work that they've carried out in 2014/15 is also being considered by this Committee. The content of this has supported the preparation of the AGS.
- 5.1.18 Two of the five audits that are highlighted in that report have been included in the AGS, whilst a third in relation to arm's length organisations has been amalgamated with the existing item on this subject. The remaining two, Car Parking and Bus Lane Enforcement and Compliance with Laws and Regulations, have not been included as the actions recommended were implemented during the year.
- 5.1.19 External scrutiny is required by legislation and the Council's external auditor, Audit Scotland, reports on a variety of areas, not simply the financial statements and financial control environment. These reports have been considered in preparing the AGS for 2014/15 with organisational and committee restructure, group governance and the health and social care integration agenda being highlighted as governance issues. These have been included in the AGS.
- 5.1.21 In considering the Assurance and Improvement Plan (AIP) for the period 2014-17, the Local Area Network through a shared risk assessment (SRA) concluded that a Best Value audit follow up would be appropriate to consider improvement since 2009 and, in particular, to determine whether performance has been managed and sustained against a backdrop of significant changes in leadership. The audit was undertaken in early 2015 with the final report due to be published on 2nd July 2015.

5.1.22 The preparation of the AGS also featured a review of other external scrutiny, including the Public Inquiry ordered by the Traffic Commissioner in relation to the Council's Goods Vehicles Operator's Licence and the Care Inspectorate led inspection of integrated children's services.

5.1.23 In conclusion and in examining the evidence, the 2014/15 AGS has been prepared with an approach of openness and accountability that recognises the positive framework that the Council has and the effectiveness of it during the financial year. It should be noted that the Statement has been produced by management and is not an independent expression of audit opinion.

5.1.24 The Annual Governance Statement is signed on behalf of Aberdeen City Council by the Chief Executive and Leader of the Council. It is recommended for approval prior to being signed off.

5.2 Unaudited Annual Accounts

5.2.1 On 26 February 2015 this committee received and noted the contents of a report, "Annual Accounts 2014/15 – Action Plan" which provided high level information and key dates in relation to the production of the 2014/15 Annual Accounts.

5.2.2 The key dates contained within the above report were:-

31 March 2015	End of financial year 2014/15
March–Sept 2015	Information from Group Entities (including ALEO's)
17 June 2015	Public notice for Annual Accounts inspection period to be issued
25 June 2015	Audit, Risk & Scrutiny Committee to consider Draft Annual Accounts
30 June 2015	Statutory deadline for Proper Officer to sign Draft Annual Accounts, submit to the Auditor and publish on the website
1 – 21 July 2015	Public inspection period for Annual Accounts
30 July 2015	Deadline for submission of the Whole of Government Accounts (WGA) to the Scottish Government
29 Sept 2015	Audit, Risk & Scrutiny Committee to consider and aim to approve audited Annual Accounts for signature
29/30 Sept 2015	Signing of audited Annual Accounts by Proper Officer, Chief Executive and Council Leader
30 Sept 2015	Deadline for submission of audited Annual Accounts to the Auditor
Early Oct 2015	Deadline for submission of the Audited WGA to the Scottish Government (date to be confirmed)
31 Oct 2015	Statutory deadline for publication on website of signed Annual Accounts & Audit Certificate, related Auditor report and accounts of all subsidiary bodies
18 Dec 2015	Deadline for submission of Audited Trust Accounts to OSCR

- 5.2.3 There is a statutory requirement that Annual Accounts for each financial year be submitted for audit to the external auditor no later than 30 June in the next financial year.
- 5.2.4 This means that the unaudited Annual Accounts for 2014/15, prepared in accordance with the relevant Accounting Codes of Practice, require to be submitted by 30 June 2015 to Audit Scotland.
- 5.2.5 There is also a requirement that the unaudited Annual Accounts be provided to and considered by a committee whose remit includes audit or governance. In recent years this committee has received the accounts prior to submission to the auditor and this is seen as good practice. As the body charged with governance it allows the committee the opportunity to take ownership of the accounts, to review them such as to be satisfied with their completeness before they are submitted for audit.

5.3 Inspection and Audit of the Accounts

- 5.3.1 The Local Authority Accounts (Scotland) Regulations 2014 defines the notice period, the inspection period, the deadline for submission of an objection to the accounts and the information which must be made available for inspection. At least 14 days' public notice must be given prior to the commencement of the inspection period. The latest date by which the public inspection can start is 1 July 2015 and therefore the latest date for issuing this public notice is 17 June 2015. The inspection must last 15 working days and will therefore end on 21 July 2015.
- 5.3.2 The Regulations also require publication of the unaudited Annual Accounts, as submitted to the Auditor, on the Council's website until the audited accounts can replace them. This not only provides a means by which the public can access the accounts during the inspection period but also ensures the Council is open and transparent in its reporting.
- 5.3.3 On completion of the audit process, the external auditor's will present their report "Combined Annual Report and Report to Those Charged with Governance on the 2014/15 audit" to the meeting of this committee on 29 September 2015. This report will highlight any significant issues arising from the audit and inform Elected Members of the proposed audit opinion in advance of the final accounts being certified.
- 5.3.4 The audited Annual Accounts will also be presented to this meeting for consideration and approval for signature. Thereafter, the accounts will be signed by the Head of Finance, Chief Executive and Council Leader. The signed accounts must be submitted to and signed by Audit Scotland no later than 30 September 2015.

5.4 Financial Performance and Review of the Accounts

- 5.4.1 It should be noted that the unaudited Annual Accounts are prepared according to the requirements of the IFRS based Code of Practice on Local Authority Accounting (the Code) and as a result are more complex and detailed than the information included in the monitoring reports provided to Committee throughout the year.
- 5.4.2 A report detailing the financial position of the Council was considered by the Finance, Policy and Resources committee on 9 June 2015. This report covered the Council's revenue and capital accounts for General Fund, Housing Revenue and Common Good and the reserves and balances of the Council as at 31 March 2015.
- 5.4.3 The following paragraphs highlight a number of the key sections of the Annual Accounts.
- 5.4.4 Management Commentary – focuses on the financial performance of the Council and its group as well as highlighting significant past and future events and comments on the economic climate within which the Council operates.
- 5.4.5 Comprehensive Income & Expenditure Statement (CIES) - reflects the income and expenditure of the Council based on the requirements of accounting standards and is therefore somewhat different to the figures reflected in the management commentary. However, the two can be reconciled through Note 17 to the accounts.
- 5.4.6 Balance Sheet – provides information on the assets and liabilities of the Council together with its usable and unusable reserves. Net assets (i.e. assets less liabilities) have increased by £35 million from March 2014 to a total of £1,200 million at March 2015. The corresponding increase in reserves reflects a £19 million and £16 million rise in usable reserves and unusable reserves respectively.
- 5.4.7 Common Good and Trusts – the Common Good CIES and Balance Sheet reflect an increase in the value of its assets which has resulted in its value increasing by £6.4 million to £105.7 million at March 2015. The financial statements of the Trusts now clearly reflect the split between charitable and non charitable trusts. This will aid the separate audit of charitable trusts, which is an OSCR (Office of the Scottish Charity Regulator) requirement and will be carried out by the Council's external auditors.

5.4.8 Group Accounts – these include the Council, its subsidiaries, associate and joint venture companies and reflects all the significant entities the Council has a controlling interest in. The group balance sheet shows net assets and reserves of £1,301 billion. A few smaller organisations have been excluded from the financial statements due to their relative size on the grounds of materiality and as such their performance is disclosed simply in the notes to the group accounts.

5.5 Registered Charities

5.5.1 This encompasses those trusts, registered with OSCR, for which the Council (all 43 Councillors) is the sole trustee. There are eight separately registered charities which for reporting purposes can be grouped together into a single Annual Report and Accounts. The consolidated balance sheet shows a value of £7.6 million, after the elimination of intra trust balances i.e. the investment in the Lands of Skene by the Guildry and Bridge of Don trusts.

5.5.2 These accounts are subject to the same audit process as the Council with the audited accounts and related auditor's report being reported back to this committee on 29 September 2015 for approval prior to signature by the relevant officers and the Council Leader.

5.5.3 Thereafter, they will be submitted to OSCR, no later than 18 December 2015.

6. IMPACT

6.1 The publication of the Annual Accounts demonstrates the Council's proper stewardship and accountability of the public funds with which it is entrusted.

6.2 The approval and inclusion of the Annual Governance Statement in the Annual Accounts ensures that the Council uses an approach which is recognised as best practice.

7. MANAGEMENT OF RISK

7.1 The robust process of closing the accounts at the financial year-end means that all reasonable steps have been taken to ensure that they are reflective of the financial circumstances of the Council during 2014/15 and as at 31 March 2015. A risk remains that the external audit process reveals potential errors or adjustments and these will be discussed by officers and the external auditor throughout the process, before the audited Annual Accounts and the auditor's report and opinion is presented to the Audit, Risk & Scrutiny Committee in September 2015.

8. REPORT AUTHOR DETAILS

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9. BACKGROUND PAPERS

'Delivering Good Governance in Local Government, Framework' CIPFA & SOLACE, 2007;
'Delivering Good Governance in Local Government, Guidance Note for Scottish Local Authorities' CIPFA & SOLACE, 2008;
Unaudited Annual Accounts 2014/15