

Address:

Business Hub 15
3rd Floor South
Marischal College
Broad Street
Aberdeen
AB10 1AB

Telephone:

0845 146 1010

Email:

info@audit-scotland.gov.uk

Website:

www.audit-scotland.gov.uk

The Audit, Risk and Scrutiny Committee
Aberdeen City Council

17 September 2015

Aberdeen City Council Annual Audit Report

1. International Standard on Auditing (UK and Ireland) 260 (ISA 260) requires auditors to report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We are drawing to your attention matters for your consideration before the financial statements are approved and certified. We also present for your consideration our annual report on the 2014/15 audit which identifies significant findings from the financial statements audit. The section headed "Significant findings from the audit in accordance with ISA260" in the attached annual audit report sets out the issues identified. This report will be issued in final form after the financial statements have been certified
2. Our work on the financial statements of Aberdeen City Council and Aberdeen City Council Charitable Trusts is now substantially complete. Subject to the satisfactory conclusion of any outstanding matters and receipt of revised sets of financial statements for final review, we anticipate being able to issue unqualified auditor's reports on 29 September 2015 for both Aberdeen City Council and Aberdeen City Council Charitable Trusts (the proposed reports are attached at Appendices A and B). There are no anticipated modifications to either of the audit reports.
3. In presenting this report to the Audit, Risk and Scrutiny Committee, we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.
4. We are required to report to those charged with governance all unadjusted misstatements which we have identified during the course of our audit, other than those of a trivial nature and request that these misstatements be corrected:
 - **Aberdeen City Council:** A number of monetary errors have not been processed through the financial statements by management. If adjusted this would decrease

net council's net cost of services expenditure by £1.527 million and increase net assets in the balance sheet by a similar amount.

- **Aberdeen City Council Charitable Trusts:** There were no misstatements arising from our audit.
5. As part of the completion of our audit we seek written assurances from the Head of Finance on aspects of the financial statements and judgements and estimates made. A draft letter of representation under ISA580 is attached at Appendix C. This should be signed and returned by the Head of Finance with the signed financial statements prior to the independent auditor's opinion being certified.

Outstanding matters

There are some areas where we still require additional information and these are identified below:

6. **Letter of representation.** This letter, otherwise known as the ISA 580 letter, is required before the approval of the financial statements by the Audit, Risk and Scrutiny Committee on 29 September 2015.
7. **Group auditor confirmations.** As part of the audit of the council's group accounts, we seek assurances from the auditors of the group companies. We normally receive these confirmations when the individual entity audits are completed. These audits are largely concluding to a similar deadline as the council and therefore we anticipate having the confirmations before the Audit, Risk and Scrutiny Committee meeting on 29 September 2015.

Appendix A: Proposed Independent Auditor's Report - Council

Independent auditor's report to the members of Aberdeen City Council and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Aberdeen City Council and its group for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and authority-only Movement in Reserves Statements, Comprehensive Income and Expenditure Statements, Balance Sheets, and Cash-Flow Statements, the authority-only Loans Fund, Housing Revenue Account Income and Expenditure Statement, the Movement on the Housing Revenue Account Statement, National Non-domestic Rates Accounts, Council Tax Income Accounts, Common Good, the Trust Funds and Endowments and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the 2014/15 Code).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Head of Finance and auditor

As explained more fully in the Statement of Responsibilities, the Head of Finance is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the authority and its group and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Annual Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2014/15 Code of the state of the affairs of the group and of Aberdeen City Council as at 31 March 2015 and of the income and expenditure of the group and the council for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2014/15 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Opinion on other prescribed matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014; and
- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements and the part of the Remuneration Report to be audited are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit; or
- the Annual Governance Statement has not been prepared in accordance with Delivering Good Governance in Local Government; or
- there has been a failure to achieve a prescribed financial objective.

I have nothing to report in respect of these matters.

Stephen Boyle
Assistant Director of Audit
Audit Scotland
4th Floor, South Suite
The Athenaeum Building
8 Nelson Mandela Place
Glasgow G2 1BT

29 September 2015

Appendix B: Proposed Independent Auditor's Report – Charitable Trusts

Independent auditor's report to the trustees Aberdeen City Council Charitable Trusts and the Accounts Commission for Scotland

I certify that I have audited the financial statements of Aberdeen City Council Charitable Trusts for the year ended 31 March 2015 under Part VII of the Local Government (Scotland) Act 1973 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of the Financial Activities, the Balance Sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the trustees and auditor

As explained more fully in the Statement of the Trustees Responsibilities in Respect of the Accounts, the trustees are responsible for the preparation of the financial statements which give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts or disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the charity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the Annual Report and Financial Statements to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the state of the charity's affairs as at 31 March 2015 and of its incoming resources and application of resources for the year then ended;

- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities and Trustee Investment (Scotland) Act 2005, and regulation 8 of The Charities Accounts (Scotland) Regulations 2006.

Opinion on other prescribed matter

In my opinion the information given in the Trustees' Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I am required to report by exception

I am required by The Charity Accounts (Scotland) Regulations 2006 to report to you if, in my opinion:

- proper accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Stephen Boyle
Assistant Director of Audit
Audit Scotland
The Athenaeum Building
4th Floor, South Suite
8 Nelson Mandela Place
Glasgow G2 1BT

29 September 2015

Stephen Boyle is eligible to act as an auditor in terms of Part VII of the Local Government (Scotland) Act 1973.

Appendix C: ISA 580 - Letter of Representation

Stephen Boyle
Assistant Director
Audit Scotland
The Athenaeum Building
4th floor South Suite
8 Nelson Mandela Place
Glasgow G2 1BT

Date

Dear Stephen

2014/15 Financial Statements

1. This representation letter is provided in connection with your audit of the financial statements of:

- Aberdeen City Council and its group for the year ended 31 March 2015 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the council and its group as at 31 March 2015 and its income and expenditure for the year then ended
- Aberdeen City Council Charitable Trusts for the year ended 31 March 2015 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of the Trusts as at 31 March 2015 and their income and expenditure for the year then ended

2. I confirm to the best of my knowledge and belief, and having made appropriate enquiries of the Chief Executive, Directors, the Council and trustees the following representations given to you in connection with your audit of Aberdeen City Council and its group, and Aberdeen City Council Charitable Trusts for the year ended 31 March 2015.

General

3. I acknowledge my responsibility and that of Aberdeen City Council and the Charity trustees for the financial statements. All the accounting records requested have been made available to you for the purposes of your audit. All material agreements and transactions undertaken by Aberdeen City Council and its group and the charitable trusts have been properly reflected in the financial statements. All other records and information have been made available to you, including minutes of all management and other meetings.

4. The information given in the council's financial statements, including the Management Commentary and Remuneration Report, presents a balanced picture of Aberdeen City Council and the charitable trusts and is consistent with the financial statements. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any

uncorrected misstatements other than those identified in the auditor's report to those charged with governance (ISA260).

5. I confirm Aberdeen City Council Charitable Trusts are the only trusts that require an audit where the sole trustee is Aberdeen City Council. The information given in the financial statements, including the Trustees' Annual Report, presents a balanced picture of the Trusts and is consistent with the financial statements. I am not aware of any uncorrected misstatements other than those identified in the auditor's report to those charged with governance (ISA260).

Financial Reporting Framework

6. The council's financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15, and in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and the Local Authority Accounts (Scotland) Regulations 2014 including all relevant presentation and disclosure requirements.

7. The charitable trusts' financial statements have been prepared in accordance with the Charities and Trustee Investment (Scotland) Act 2005, Charities Accounts (Scotland) Regulations 2006 (as amended), Accounting and Reporting by Charities: Statement of Recommended Practice (revised 2005) (the SORP) and the provisions of the charities' constitution.

8. Disclosure has been made in the financial statements of all matters necessary for them to show a true and fair view of the transactions and state of affairs of Aberdeen City Council and its group and Aberdeen City Council Charitable Trusts for the year ended 31 March 2015.

Accounting Policies & Estimates

9. All material accounting policies adopted are as shown in the Statement of Accounting Policies included in the financial statements. The continuing appropriateness of these policies has been reviewed since the introduction of IAS 8 and on a regular basis thereafter, and takes account of the requirements set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

10. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. There are no changes in estimation techniques which should be disclosed due to their having a material impact on the accounting disclosures.

Related Party Transactions

11. All transactions with related parties have been disclosed in the financial statements. I have made available to you all the relevant information concerning such transactions, and I am not aware of any other matters that require disclosure in order to comply with the

requirements of IAS24, as interpreted by the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Events Subsequent to the Balance Sheet Date

12. Other than the disclosures within Note 23, there have been no material events since the dates of the Balance Sheets which necessitate revision of the figures in the financial statements or notes thereto including contingent assets and liabilities.

13. Since the dates of the Balance Sheets no events or transactions have occurred which, though properly excluded from the financial statements, are of such importance that they should be brought to your notice.

Corporate Governance

14. I acknowledge as Section 95 Officer and as treasurer to the Trusts my responsibility for the corporate governance arrangements. I confirm that I have disclosed to the auditor all deficiencies in internal control of which I am aware.

15. The corporate governance arrangements have been reviewed and the disclosures I have made are in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15. There have been no changes in the corporate governance arrangements or issues identified, since the 31 March 2015, which require disclosure.

Fraud

16. I have considered the risk that the financial statements may be materially misstated as a result of fraud. I have disclosed to the auditor any allegations of fraud or suspected fraud affecting the financial statements. There have been no irregularities involving management or employees who have a significant role in internal control or that could have a material effect on the financial statements.

Assets

16. The assets shown in the council Balance Sheet and the charitable trusts' statement of balances at 31 March 2015 were owned by Aberdeen City Council other than assets which have been purchased under operating leases, and the charitable trusts. Assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Liabilities

17. All liabilities have been provided for in the books of account, including the liabilities for all purchases to which title has passed prior to 31 March 2015.

Contingent Liabilities

18. There are no significant contingent liabilities, other than those disclosed in Note 38 to the accounts, arising either under formal agreements or through informal undertakings requiring disclosure in the accounts. All known contingent liabilities have been fully and

properly disclosed, including any outstanding legal claims which have not been provided for under the Code and IAS37.

Carrying Value of Assets and Liabilities

19. The assets and liabilities have been recognised, measured, presented and disclosed in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15. There are no plans or intentions that are likely to affect the carrying value of classification of the assets and liabilities within the financial statements.

Provisions

20. Provisions have been made in the council's financial statements for all material liabilities which have resulted or may be expected to result, by legal action or otherwise, from events which had occurred by 31 March 2015 and of which Aberdeen City Council could reasonably be expected to be aware. The amounts recognised as provisions are the best estimates of the expenditure likely to be required to settle the present obligations, as at 31 March 2015, and I am not aware of any instances of provisions that do not meet the criteria of IAS37.

Commitments

21. All commitments under capital contracts have been disclosed in Note 30 to the council's accounts. Any other significant commitments or obligations which might adversely affect the council have been disclosed.

Leases

22. All leasing arrangements have been reviewed and correctly classified as operating or finance within the financial statements. Lease arrangements granted by the council have been classified and disclosed within the financial statements.

Loans Fund

23. All borrowings have been confirmed as being compliant with the provisions of the Local Government (Scotland) Act 1975.

Group Accounts

24. In my opinion, the group assets, liabilities and revenue transactions within the financial statements are materially complete. With the exception of Aberdeen Sports Village Limited, they are based on the audited financial statements of the individual bodies for the year ended 31 March 2015. Aberdeen Sports Village Limited's accounting year end is 31 July. For the purposes of group accounts, however, estimated results for the year ended 31 March 2015 have been prepared using audited results to 31 July 2014 and relevant management accounts. This is considered a reasonable estimate for consolidation purposes.

25. Pension costs in respect of Aberdeen Exhibition and Conference Centre (AECC) and Aberdeen Sports Village Limited (ASV) have been accounted for as defined contribution

scheme. AECC operates a defined contribution pension scheme but for ASV, it is not possible to separately identify pension fund assets and liabilities and therefore it has also been regarded as a defined contribution scheme for accounting purposes.

26. Any significant issues with the financial statements of group entities, including qualifications, have been advised to audit. In making these assertions, I am reliant on the opinions of the external auditors of group entities.

Common Good and Trust Funds

27. In my opinion, the common good assets, liabilities and revenue transactions within the financial statements are materially complete. Similarly, all assets and liabilities and revenue transactions relating to charitable trusts managed by the council have been properly separate from the council's single entity accounts and are reflected within the trust fund accounts.

North East Scotland Pension Funds (NESPF)

29. There are no non-adjusting events which have occurred subsequent to NESPF's period end which have not been notified to audit, which could impact significantly on the council's financial statements.

30. The pension assumptions made by the actuary in the IAS19 report for Aberdeen City Council have been reviewed and I confirm that they are consistent with management's own view.

Other Matters

31. Except as disclosed in the financial statements, the results for the period were not materially affected by:

- transactions of a sort not usually undertaken by the Council or the charitable trusts
- circumstances of an exceptional or non-recurrent nature
- charges or credits relating to prior periods
- any change in the basis of accounting

Yours sincerely

Steven Whyte

Head of Finance



Aberdeen City Council

2014/15 Audit

Annual Audit Report to
Members and the
Controller of Audit

September 2015

The Accounts Commission is a statutory body which appoints external auditors to Scottish local government bodies. (www.audit-scotland.gov.uk/about/ac)

Audit Scotland is a statutory body which provides audit services to the Accounts Commission and the Auditor General. (www.audit-scotland.gov.uk)

The Accounts Commission has appointed Stephen Boyle as the external auditor of Aberdeen City Council for the period 2012/13 to 2015/16.

This report has been prepared for the use of Aberdeen City Council and no responsibility to any member or officer in their individual capacity or any third party is accepted.

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 Accounts Commission's annual overview report on local authority audits published on its website and presented to the Local Government and Regeneration Committee of the Scottish Parliament.

Key contacts

Stephen Boyle, Assistant Director
sboyle@audit-scotland.gov.uk

Anne MacDonald, Senior Audit Manager
amacdonald@audit-scotland.gov.uk

Mark Johnstone, Senior Auditor
mjohnstone@audit-scotland.gov.uk

Audit Scotland
Business Hub 15, 3rd Floor South
Marischal College, Broad Street
Aberdeen
AB10 1AB

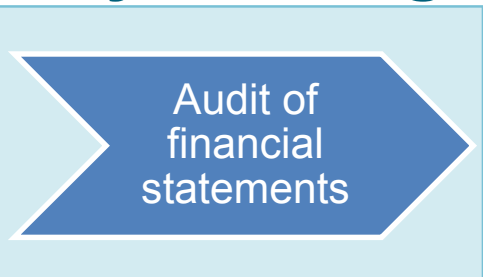

Telephone: 0131 625 1500



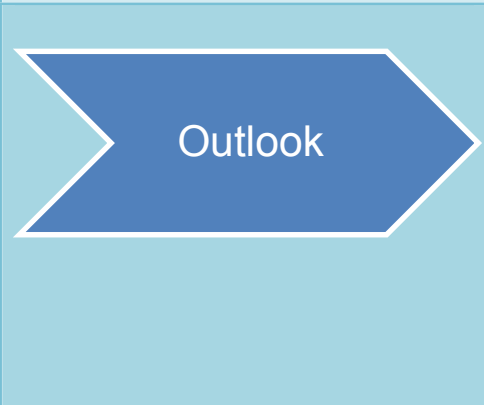
Website: www.audit-scotland.gov.uk

Contents

Key messages	4	Best Value	39
Introduction	6	Appendix I – Significant audit risks	43
Audit of the 2014/15 financial statements	7	Appendix II - Summary of local audit reports 2014/15	47
Financial management and sustainability	14	Appendix III - Summary of national reports 2014/15	48
Governance and transparency – overall arrangements	25	Appendix IV - Action plan	49
Governance and transparency – wider scope	31		

Key messages

 <p>Audit of financial statements</p>	<ul style="list-style-type: none">• The independent auditor's reports on the 2014/15 financial statements for Aberdeen City Council and its group and the Aberdeen City Council Charitable Trusts are unqualified.• A timetable for the earlier delivery of the audited financial statements was agreed between the respective finance and audit teams. This was successfully delivered enabling us to meet the requirements of the Local Authority Accounts (Scotland) Regulations 2014.
 <p>Financial management and sustainability</p>	<ul style="list-style-type: none">• The council has a record of sound financial management supported by considerable reserves. This provides the council with a secure financial position in the short term but the longer term outlook is less clear. The council needs to reduce its cumulative spending by approximately £50m by 31 March 2020.• In recognition of an uncertain financial climate in the public sector, long term financial planning is being developed. A range of social and economic factors likely to impact on financial plans up to 2050 have been identified for further consideration.• The council has an ambitious programme of capital projects to deliver over the next 15 to 20 years and is currently developing a City Region Deal plan in partnership with Aberdeenshire Council.
 <p>Governance and transparency</p>	<ul style="list-style-type: none">• Over the last 12 months, implementation of the council's revised management structure was concluded with a number of new head of service appointments including a new monitoring officer.• Significant steps have been taken to strengthen scrutiny undertaken by the Audit, Risk and Scrutiny Committee, including training, self-evaluation and the publication of its first annual report.• Systems of internal control operated well including an effective internal audit function and sound anti-fraud arrangements. Scrutiny arrangements for ALEOs have now been implemented but it will take time before they are operating effectively

	<ul style="list-style-type: none">• Plans are moving apace in respect of health and social care integration, resource plans are taking shape and discussions have commenced on the scrutiny model to be adopted by the integration board alongside Aberdeen City Council.• Relevant transactions associated with capital projects reviewed during the audit have been appropriately included in the 2014/15 financial statements.
	<ul style="list-style-type: none">• A Best Value audit report published in July 2015 welcomed the progress made by the council in a number of areas, but also highlighted that there is a great deal more improvement to be delivered and consolidated. An improvement action plan has been developed by the council which will be monitored as part of the 2015/16 audit.• For 2014/15, the council's statutory performance indicators showed improvement in 42% (2013/14 - 31%) of cases and deterioration in 34% (2013/14 – 40%) of cases.• Work is continuing to improve performance information including public performance reporting.
	<ul style="list-style-type: none">• The council faces rising demands for services and continued funding pressures alongside managing major capital projects and service reforms.• The City Region Deal continues to develop both in terms of the working relationship and respective expectations of Aberdeenshire Council and the Scottish Government but also in terms of setting out governance arrangements which will assist in delivering the deal in the years ahead.• Recent changes in the recognition and funding of non-profit distribution schemes may have implications for the council both in terms of existing and planned capital projects.

Introduction

1. This report is a summary of our findings arising from the 2014/15 audit of Aberdeen City Council. The report is divided into sections which reflect our public sector audit model.
2. The management of Aberdeen City Council is responsible for:
 - preparing financial statements which give a true and fair view
 - implementing appropriate internal control systems
 - putting in place proper arrangements for the conduct of its affairs
 - ensuring that the financial position is soundly based.
3. Our responsibility, as the external auditor of Aberdeen City Council, is to undertake our audit in accordance with International Standards on Auditing, the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011 and the ethical standards issued by the Auditing Practices Board.
4. An audit of financial statements is not designed to identify all matters that may be relevant to those charged with governance. It is the auditor's responsibility to form and express an opinion on the financial statements; this does not relieve management of their responsibility for the preparation of financial statements which give a true and fair view.
5. A number of reports, both local and national, have been issued by Audit Scotland during the course of the year. These reports, summarised at **appendices II and III**, include recommendations for improvements.
6. **Appendix IV** is an action plan setting out our recommendations to address the high level risks we have identified during the course of the audit. Officers have considered the issues and agreed to take the specific steps in the column headed "Management action/response". We recognise that not all risks can be eliminated or even minimised. What is important is that Aberdeen City Council understands its risks and has arrangements in place to manage these risks. The council and corporate management team should ensure that they are satisfied with proposed action and have a mechanism in place to assess progress and monitor outcomes.
7. 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.
8. We are grateful for the cooperation and assistance we received during the course of the audit.

Audit of the 2014/15 financial statements

Audit opinion	<ul style="list-style-type: none">• We have completed our audit and issued an unqualified independent auditor's report.
Going concern	<ul style="list-style-type: none">• The financial statements of the council, its group and the associated charitable trusts have been prepared on the going concern basis. We are unaware of any events or conditions that may cast significant doubt on the council, its group and associated charitable trusts' ability to continue as a going concern.
Other information	<ul style="list-style-type: none">• We review and report on other information published with the financial statements, including the management commentary, annual governance statement and the remuneration report. We have nothing to report in respect of these statements.
Charitable trusts	<ul style="list-style-type: none">• We have completed our audit of the 2014/15 financial statements of the charitable trusts administered by Aberdeen City Council and issued an unqualified independent auditor's report.
Group accounts	<ul style="list-style-type: none">• Aberdeen City Council has accounted for the financial results of seven subsidiaries, one associate and one joint venture in its group accounts for 2014/15. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £101.300m.

Submission of financial statements for audit

9. Local Authority Accounts (Scotland) Regulations 2014 introduced a number of key changes to the processes for approval and publication of both the unaudited and audited annual accounts.
10. In order to meet these certification dates for the annual accounts and the planned earlier publication of the Annual Audit Report, we held early discussions with the Head of Finance and his team to review our respective ways of working in order to implement a smarter approach for the preparation and audit of the council's financial statements and the charities' accounts. This required a change in working practices and close cooperation with the finance team but enabled us to collectively deliver the audited accounts to meet the new timescales.
11. We received the unaudited financial statements on 17 June 2015, in accordance with the agreed timetable. The working papers were of a good standard and council staff were effective support to the audit team.

Overview of the scope of the audit of the financial statements

12. Information on the integrity and objectivity of the appointed auditor and audit staff, and the nature and scope of the audit, were outlined in our Annual Audit Plan presented to the Audit Committee on 26 February 2015.

13. As part of the requirement to provide full and fair disclosure of matters relating to our independence, we can confirm that we have not undertaken non-audit related services. As such, the agreed fee for the 2014/15 audit which was set out in the Annual Audit Plan remains unchanged.
14. The concept of audit risk is of central importance to our audit approach. During the planning stage of our audit we identified a number of key audit risks which involved the highest level of judgement and impact on the financial statements and consequently had the greatest effect on the audit strategy, resources and effort. We set out in our Annual Audit Plan the audit work we proposed to undertake to secure appropriate levels of assurance. **Appendix I** sets out the significant audit risks identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.
15. Our audit involved obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error.

Materiality

16. Materiality can be defined as the maximum amount by which auditors believe the financial statements could be misstated and still not be expected to affect the decisions of users of financial statements. A misstatement or omission, which would not normally be regarded as material by amount, may be important for other reasons (for example, an item contrary to law).

17. We consider materiality and its relationship with audit risk when planning the nature, timing and extent of our audit and conducting our audit programme. Specifically with regard to the financial statements, we assess the materiality of uncorrected misstatements, both individually and collectively.
18. We summarised our approach to materiality in our 2014/15 Annual Audit Plan. Based on our knowledge and understanding of Aberdeen City Council we set our planning materiality at £7.789m (1% of gross expenditure). We report all misstatements greater than £100,000. Performance materiality was calculated at £3.778m, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.
19. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that they remained appropriate and no change was required to our original calculations.
20. In our Annual Audit Plan we set separate materiality in the audit of four charitable trusts' financial statements. During the year, the council progressed with its plans to present one set of financial statements for Aberdeen City Council Charitable Trusts using the connected charities provision of the regulations. The materiality for these financial statements is £2,070 in respect of the Statement of Financial Activities and £75,810 for the Balance Sheet.

Evaluation of misstatements

21. All misstatements identified during the audit, which exceeded our materiality threshold, have been amended in the financial statements. The impact of these is to reduce Total Comprehensive Expenditure by £8.752m, with a corresponding decrease in Net Assets and Total Reserves.
22. In addition we identified a number of presentational adjustments within the financial statements during the course of our audit. These were discussed with relevant officers who agreed to amend the unaudited financial statements accordingly.
23. A number of monetary adjustments were identified within the financial statements during the course of our audit. These were discussed with relevant officers who agreed not to amend the unaudited financial statements. Had these misstatements be adjusted the net impact would have been to decrease the Net Cost of Services by £1.527m, with a corresponding increase in Net Assets and the General Fund.

Significant findings from the audit

24. International Standard on Auditing 260 requires us to communicate to you significant findings from the audit, including:
 - The auditor's views about significant qualitative aspects of the entity's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.
 - Significant difficulties encountered during the audit.

- Significant matters arising from the audit that were discussed, or subject to correspondence with management.
 - Written representations requested by the auditor.
 - Other matters which in the auditor's professional judgment, are significant to the oversight of the financial reporting process.
25. During the course of the audit we identified the following significant issues that, in our view, require to be communicated to you.

Significant findings from the audit

Issue	Resolution
<p>1. Property, Plant and Equipment - Site of the former Summerhill Centre</p> <p>The property continued to be carried in non-current assets at a value of £18.7m despite the change in expected use of the site from a supermarket development to affordable housing. Plans for a supermarket were proposed and while the interested chain demolished the former building with a view to clearing the site, they subsequently pulled out of the development in July 2014 leaving the council to consider alternative plans. No revaluation of the site had taken place to reflect the fact that the sale had not proceeded.</p>	<p>The site has been revalued as a surplus property with a value of £10m and the annual accounts were adjusted to reduce the valuation by £8.752m.</p>
<p>2. Heritage assets – revaluation of the council's art collection</p> <p>Included in heritage assets is the council's art collection which was valued at £168m at 31 March 2015. During the year the collection increased in value by £20m, an increase of 13% on the previous year. The increase in value is based on the expertise and opinion of the curator at the art gallery having considered sales of pieces of work by the same artists and shared views of notification of valuations to other galleries when pieces of art are on loan. While we have had a discussion with the curator, specific management representations will be required given the material increase in value.</p>	<p>This matter was included in our letter of representation.</p>

Issue	Resolution
<p>3. Provisions – equal pay</p> <p>Provisions include £2.3m in respect of equal pay claims. As there has been limited movement in equal pay claims for some time, consideration should be given to reviewing the level of provision held. In particular, £1.5m of the total relates to potential claims in respect of the ‘Abdulla’ caselaw which extended the period in which a claim could be made from 6 months to 6 years.</p>	<p>As the amount involved was not material in terms of the accounts, no further action was taken for 2014/15. While provisions are reviewed on an annual basis, we recommended that the ‘Abdulla’ element of the provision be reassessed in advance of the 2015/16 financial statements to ensure a provision continues to be justified.</p>
<p>4. Accrual - CareFirst Spot Purchase</p> <p>An accrual of £6.272m relating to spot purchase charges for social care clients on the CareFirst system was included as a short term creditor in the unaudited annual accounts. The accrual is estimated from a manual review of transactions processed through the financial ledger during the year. Due to data recording and timing issues, council staff do not regard the CareFirst system to be sufficiently up to date to provide complete information and therefore an alternative approach is adopted to calculate year end accruals. We compared the estimation of the accrual with an analysis of invoices relating to the 2014/15 financial year, which had been processed in 2015/16 and this identified that the accrual was understated by £0.223m.</p>	<p>Management decided not to make an adjustment for this misstatement on the grounds of materiality. We agreed with this approach and included the amount in the total value of unadjusted misstatements.</p>

Issue	Resolution
<p>5. Reserves - Deferred Capital Receipt</p> <p>The council is due to receive a £10m capital receipt in respect of the St Nicholas House site, £1.0m was received in 2014/15 and the balance of £9.0m will be received on completion of the building in 2017/18. The deferred receipt has been discounted to reflect its actual cash value at today's prices and included in the Capital Receipts Reserve as a usable reserve. As the cash is not due to be received until 2017, this should be classed as an unusable reserve. In addition, the amount due from the developer was included in the unaudited accounts within short term debtors when it should have been long term debtors.</p>	<p>Amendments were made to the revised financial statements to reflect the agreed changes in disclosures.</p>
<p>6. Group Accounts</p> <p>We noted a number of minor misstatements within the consolidation schedule which calculated the Group Accounts. The net impact of these was a reduction in Short Term Debtors and an increase in Short Term Creditors of £4.718m.</p>	<p>Amendments to be made in revised financial statements</p>
<p>7. Charitable Trusts - Governance documentation</p> <p>The governance documentation for several trusts could not be located as a consequence of the age of the trust, in some cases dating back over 100 years. The classification of these charities' funds between restricted, unrestricted and endowment funds could therefore not be readily established. We were also unable to verify whether spend in these areas was in line with the original stated purpose for these individual trusts.</p>	<p>All funds are treated as endowments, and where there is an absence of governance documentation, the council rely on custom and practice to inform any decisions by the trustees in respect of the trusts expenditure and use of assets. We are not aware of any matters which would materially impact on the financial statements.</p>

Future accounting and auditing developments

Revisions to the Code of Practice

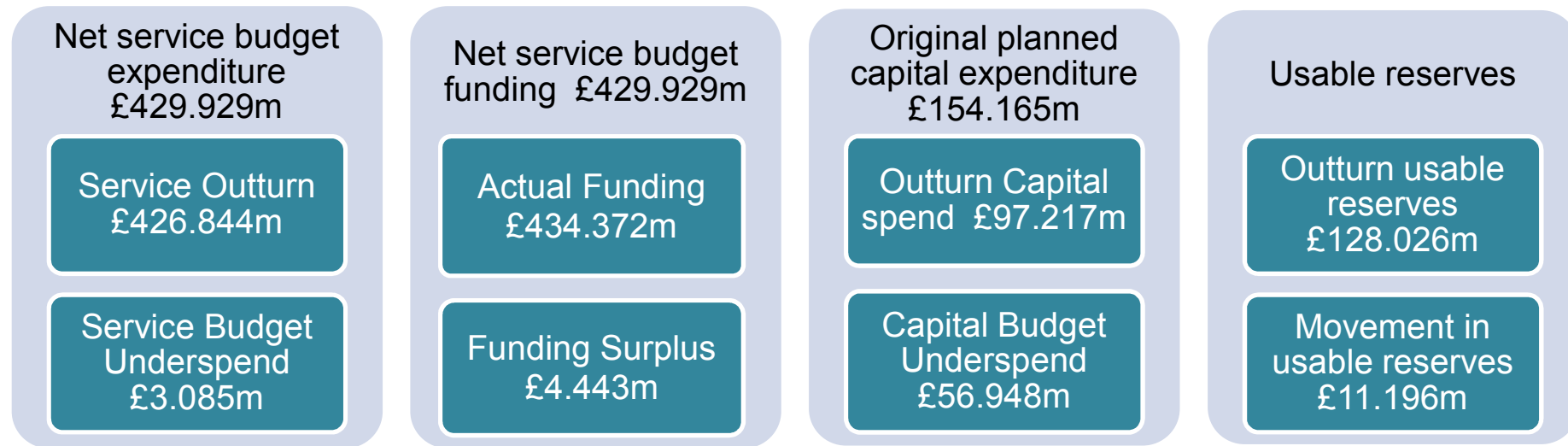
26. The financial statements of the council are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) which interprets and adapts International Financial Reporting Standards (IFRS) to the local authority context. The following paragraphs set out the most significant changes to accounting requirements introduced by the 2015/16 Code.
27. **(IFRS) 13 Fair value measurement:** Although the measurement requirements for operational property, plant and equipment will not change, enhanced valuation disclosures will be required. However, the 2015/16 Code requires surplus assets to be measured at fair value in accordance with IFRS 13. The council will need to make the necessary preparations to ensure that the new requirements are addressed for the 2015/16 financial statements.
28. **Transport infrastructure assets:** The council's highway assets are currently carried within infrastructure assets in the balance sheet at depreciated historic cost. The 2016/17 Code will require highways to be measured, for the first time, on a depreciated replacement cost basis. 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.

29. The council has set up an officer working group, comprising staff from both the finance and estates functions, to take forward this revised valuation methodology.

Health and Social Care Integration

30. From 1 April 2016 Integrated Joint Boards (IJBs) will be accountable for the provision of health and social care. IJBs will be required to produce financial statements in compliance with the Code and the Accounts Commission will appoint auditors to audit the financial statements. We comment on the progress of the Aberdeen IJB at paragraphs 125 to 134.

Financial management and sustainability



Financial management

31. In this section we comment on the council's financial outcomes and assess the council's financial management arrangements.
32. The council sets an annual budget to meet its service and other commitments for the forthcoming financial year. The setting of the annual budget impacts directly on residents as it determines council tax and other fees and charges. Regular monitoring of expenditure and income against agreed budgets is central to effective financial management.

Financial outcomes

33. The council reported a deficit of £9.240m on the provision of services in 2014/15. Adjusting this balance to remove the accounting entries required by the Code, the council increased its general fund balance by £7.681m.
34. In overall terms, the management of staff vacancies across all services produced savings of £14.6m (£14.6m - 2013/14), representing 6.1% (6.1% - 2013/14) of the general fund staff budget. Higher than anticipated income levels and an increase of 1,200 in the Band D equivalent properties enabled the council to achieve a greater level of funding than was originally budgeted for.

35. Exhibit 1 shows a continuing trend in underspends in recent years. Key variations against budget included:

- Corporate Governance achieved an underspend of £2.831m, 9.6% of budget, due to additional government grants (including Department for Work and Pensions)
- Education, Culture and Sport's unspent balance largely relates to underspends by schools in their delegated budgets which they are permitted to carry forward
- Housing and Environment returned an underspend of £2.367m, 6.5% of budget, which arose from increased rental income from private sector leasing flats and vacant posts.

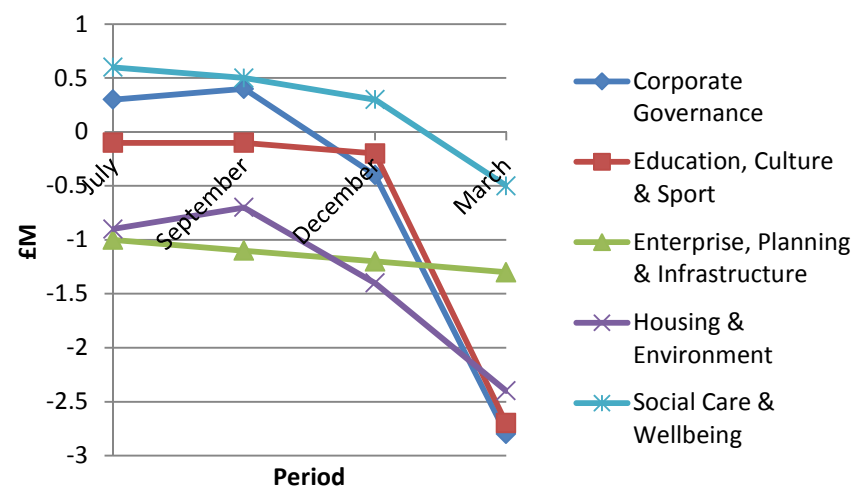
Exhibit 1 - Key Services (underspend)/ overspend

	2014/15 £m	2013/14 £m	2012/13 £m
Corporate Governance	(2.8)	(2.1)	(2.5)
Education, Culture and Sport	(2.7)	(1.0)	(1.0)
Enterprise Planning and Infrastructure	(1.3)	(3.2)	(1.8)
Housing and Environment	(2.4)	(2.9)	(3.9)
Social Care and Wellbeing	(0.5)	(1.5)	(0.2)

Source: Aberdeen City Council Statement of Accounts 2012/13, 2013/14 and Annual Accounts 2014/15

36. Exhibit 2 shows the departmental projected results as reported to members on a regular basis during the year. This shows that there was a significant increase in the level of underspend achieved in the final quarter of the financial year. This fits with the explanations above, for example, unspent balances on delegated budgets are not known until the year end.

Exhibit 2 - 2014/15 Projected Outturn Variance against Budget

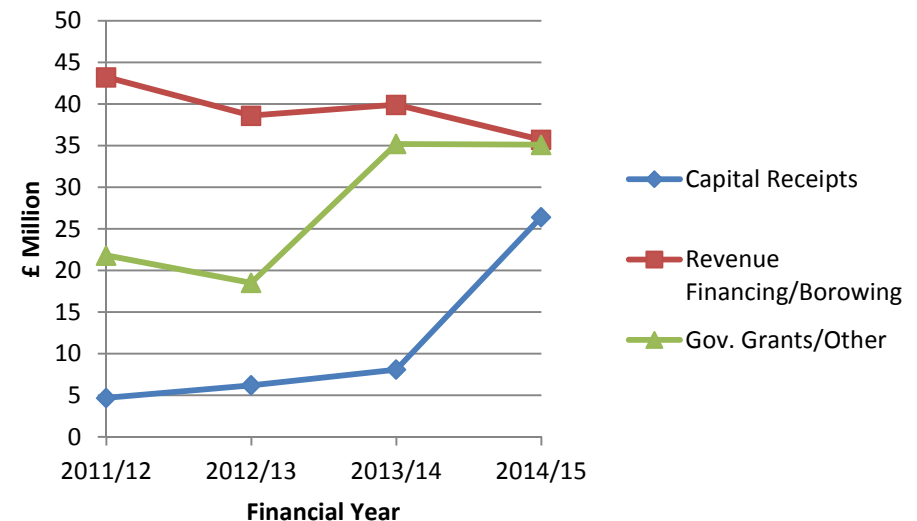


Source: Aberdeen City Council Revenue Budget Monitoring Reports

Capital programme 2014/15

37. The council approved its 2014/15 general services capital programme in February 2014. Actual spend on the programme amounted to £57.923m, which was significantly less than the agreed budget of £112.403m, although closer to the service determined minimum required expenditure of £62.900m.
38. The council approved its housing capital programme for 2014/15 in December 2013. Actual spend of £39.294m was 5.9% less than the agreed budget of £41.7m, the major area of expenditure being ongoing compliance works to meet the Scottish Housing Quality Standard 2015 deadline.
39. The trend in sources of funding for capital expenditure is reflected in Exhibit 3. This shows that sources of funding for 2014/15 were broadly consistent with the previous year with the exception of Capital Receipts. Sales of assets included the St Nicholas House site which is covered in detail at paragraphs 153 to 155.
40. During the year the council revised its arrangements for major projects with the introduction of a Strategic Infrastructure Plan (SIP) and Capital Review Group. The group will approve business cases for inclusion in the capital plan and is responsible for the overall delivery of the SIP and capital plan. Progress with capital projects is monitored by the Programme Management Office who provide regular performance dashboards to the Corporate Management Team and Finance, Policy and Resources Committee. These arrangements have only recently been developed and therefore need time to bed in. We intend to review them in more detail as part of the 2015/16 audit.

Exhibit 3 - Sources of finance for capital expenditure 2011/12 – 2014/15



Source: Aberdeen City Council Annual Accounts

Financial management arrangements

41. As auditors, we need to consider whether councils have established adequate financial management arrangements. We do this by considering a number of factors, including whether:
- the proper officer has sufficient status within the council to be able to deliver good financial management
 - financial regulations are comprehensive, current and promoted within the council
 - reports monitoring performance against budgets are accurate and provided regularly to budget holders

- monitoring reports do not just contain financial data but are linked to information about performance
 - members provide a good level of challenge and question budget holders on significant variances.
42. We assessed the role and status of the proper officer against CIPFA's "Statement on the role of the Chief Financial Officer in Local Government" and concluded that the council complies with the statement's five principles.
43. We reviewed the council's standing orders, financial regulations and scheme of delegation and concluded that they were comprehensive, current and reflected the recent changes in committee structures.
44. Council-wide financial monitoring reports are submitted to each meeting of the Finance, Policy and Resources Committee. Detailed financial monitoring reports at a service level are regularly submitted to the relevant committee. The reports provide good information on budgeted spend to date and the year end forecast position. Reports also include a narrative section which provides a commentary on significant issues and any risks arising which might impact on the budgeted position being achieved.
- ### Shared Section 95 Officer Arrangement
45. In December 2014, the Finance, Policy and Resources Committee agreed to enter into a trial shared working arrangement for a section 95 officer with Shetland Islands Council.
46. As set out in the Business Case, the objective of the arrangement is to *'establish how successful a shared s.95 officer arrangement can be; to ensure that each local authority receives a seamless service from the point of view of financial leadership, strategic financial advice, maintaining financial stewardship levels and continued delivery of appropriate professional finance advice, guidance and front line service delivery to the internal and external customers of both local authorities'*.
47. Authority was delegated to officers to negotiate appropriate arrangements with Shetland Islands Council and make any necessary changes to management roles and responsibilities. To support this arrangement, there was a review and restructure of the finance section to ensure there was sufficient capacity to continue to deliver ongoing commitments.
48. The Business Case proceeded on the basis that there would be *'no additional cost to Aberdeen City Council as the cost of creating capacity within the Finance structure, travel and associated costs will be met by Shetland Islands Council'*.
49. The arrangement commenced in December 2014 with the head of finance and corporate finance manager sharing responsibilities. This proved difficult to sustain in practice and consequently, the corporate finance manager had taken on a greater role in Shetland but still under the oversight of the head of finance. An amount of £17,000 has been accrued within the 2014/15 financial statements which represents the additional costs incurred by Aberdeen City Council in developing the shared arrangement.

50. The council regard this initiative as both an opportunity and a challenge. Steps were quickly taken to build capacity and capability within the finance team. In addition, the roles and responsibilities of senior staff within the team were amended to strengthen leadership capacity. This has provided a significant development opportunity for the finance team with increased delegation to staff and exposure to senior management and elected members.
51. The council are committed to concluding a review by December 2015 which will evaluate experiences of the shared arrangement from the pilot 12 month period and recommend the next steps. Whilst we recognise the range of benefits to be gained from the arrangement, it is important that a full assessment of the cost implications also form part of the review.

Refer Action Plan, Recommendation 1

Conclusion on financial management

52. We have concluded that the council's financial management arrangements are satisfactory. However, savings against budget have largely been achieved due to staff vacancies. Whilst it is acknowledged that recruitment and retention of staff in some areas has been a challenge for the council and that a vacancy factor is to be expected, a high level may produce a negative impact on service performance. We comment further on performance management in pages 40 to 42.

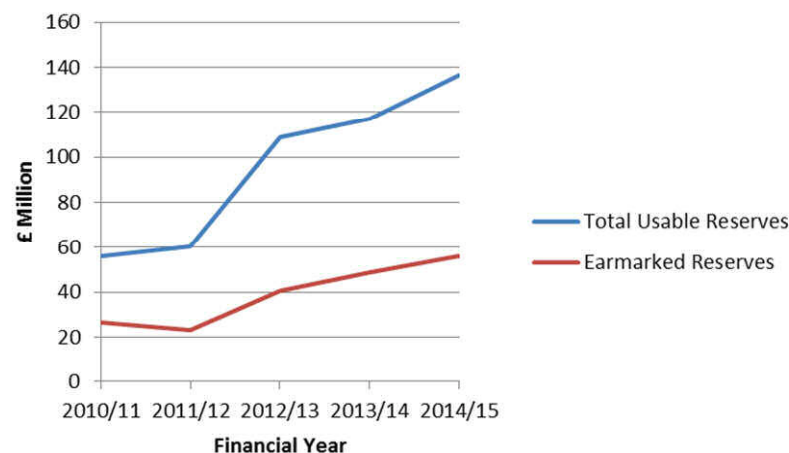
Financial sustainability

53. The council delivers a broad range of services, both statutory and discretionary, to its communities. Financial sustainability means that the council has the capacity to meet these current and future needs. In assessing financial sustainability we are concerned with whether:
- there is an adequate level of reserves
 - spending is being balanced with income in the short term
 - long term financial pressures are understood and planned for
 - investment in services and assets is effective.
54. Effective long-term financial planning, asset management and workforce planning are crucial to sustainability.

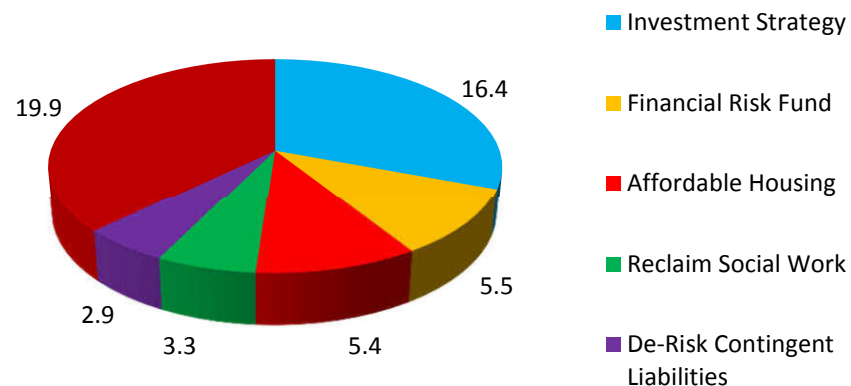
Reserves

55. The overall level of usable reserves held by the council at 31 March 2015 increased by £11.196m compared to the previous year and totalled £128.026m. The General Fund balance includes £11.291m of unallocated general fund reserves, which represents 2.6% of the 2014/15 net revenue budget and is in line with the council's policy. Exhibit 4 shows that the total level of usable reserves has increased significantly over the last 5 years. Earmarked balances are part of those usable reserves and they have also been increasing over the period.

Exhibit 4: Usable reserves and earmarked balances



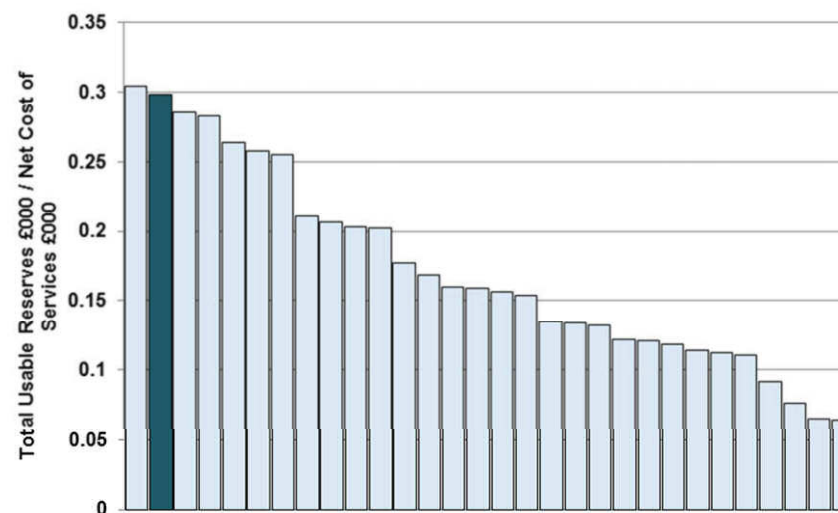
Usable reserves and earmarked balances (£m)



Source: Aberdeen City Council Annual Accounts 2014/15

56. Exhibit 5 presents the council's usable reserves position in relation to net cost of services for the year in comparison to other Scottish councils. Taking the increase in usable reserves and the level of earmarked balances into consideration, the Exhibit confirms that the council's level of usable reserves is amongst the highest in Scotland.

Exhibit 5: Total Usable Reserves as a proportion of net cost of services



Source: Scottish councils' unaudited accounts 2014/15 (excluding Orkney and Shetland Islands councils)

57. Since the council launched its 5 year business planning process, it has aimed to ensure that resources are available to support the capital investment programme and the implementation of a de-risking strategy to minimise the impact of unexpected financial pressures. The use of earmarked reserves is central to the council in meeting these aims. They are used to keep track of resource decisions and in general terms, budget underspends are diverted into earmarked balances for future investment.

Short and medium term financial planning

58. For 2014/15, the council approved a balanced budget, with no savings or use of reserves required to support this position. The longer term position highlighted a cumulative shortfall of £35.1m by 31 March 2019.
59. The council approved its 2015/16 budget in February 2015 and were again able to set a balanced budget. The net service expenditure budget set for 2015/16 is £445.6m. However the 5 year indicative budget highlighted a worsening position with the identified spending gap over the period of the plan increasing to £52.6m by 31 March 2020. (Exhibit 6)
60. The council has yet to identify actual areas where savings can be made, however there are a number of projects which have commenced to meet this funding shortfall. These include Outcome Based Budgeting, transformation projects and PACE (Procurement Achieving Commercial Excellence) which is expected to realise £25m of recurring savings through better procurement practices.

Refer Action Plan, Recommendation 2

Exhibit 6: Movement in Financial Position 2014/15 – 2019/20

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
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	
2015/16 Budget - Agreed 05/02/15						
Funding		(445,565)	(457,759)	(460,535)	(460,468)	(460,401)
Expenditure		445,565	475,111	490,566	501,114	513,014
Shortfall		0	17,352	30,031	40,646	52,613

Source: Aberdeen City Council Revenue Budget 2014/15 and 2015/16

Long term financial planning

61. The council is currently developing a long term financial plan, covering the period up to 2050. The plan aims to provide the council with a clear understanding of its long term financial challenges. It should also help it understand the demand pressures it will face and its need to deliver transformational change including shared services and collaborative working with other public bodies.

62. The current version of the plan encompasses the key elements we would expect to see in such a document. However there is scope for further development of the plan including a more incremental approach with an anticipated position at 2025, 2035 and 2045. The next iteration of the plan will incorporate the council's City Region Deal proposals.

Refer Action Plan, Recommendation 3

Workforce Management

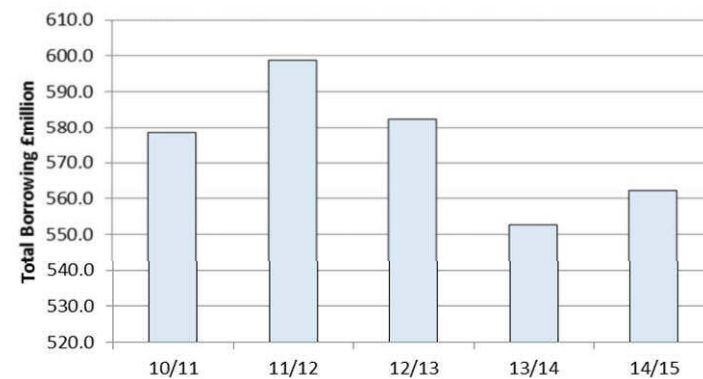
63. Effective workforce management is essential to ensure that the council maximises the effectiveness of its employees. A workforce strategy is key to setting out how the council will ensure it has appropriately skilled people in place to deliver its services. The council approved its Strategic Workforce Plan for the period 2014/15 – 2018/19 in February 2014, as part of the overall agreement of the revenue budget for 2014/15.
64. We reviewed the Strategic Workforce Plan and concluded that it identifies the key issues facing the council refining its strategies in areas such as recruitment and retention of staff and absence management.
65. It sets out a good corporate framework for directorates to identify workforce demands and the actions needed to bridge any gaps. Individual workforce plans to service committees were expected over summer of 2015. Thereafter, there is scope to build the links between the workforce plan and the long term financial plan.

Refer Action Plan, Recommendation 3

Treasury Management

66. During 2014/15, the council reduced its level of short term borrowing from £117.608m to £92.658m. In the same period, long term borrowing increased from £435.168m at 31 March 2014 to £469.621m at 31 March 2015. This reflects the council's treasury policy to replace more expensive short term loans with longer term.

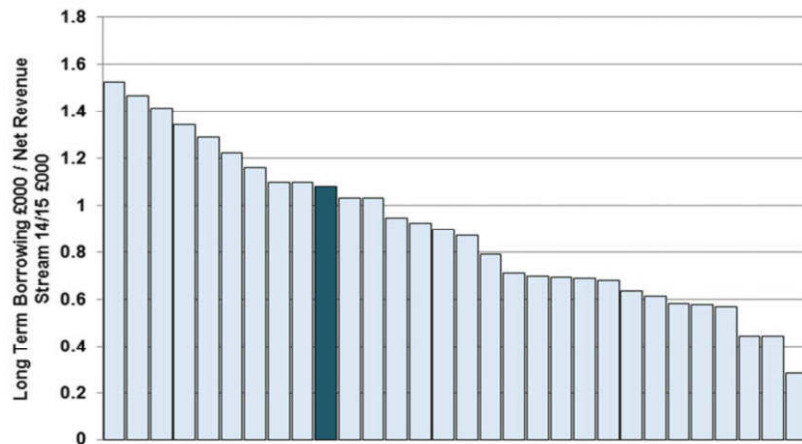
Exhibit 7: Total Borrowing 2010/11 – 2014/15



Source: Aberdeen City Council Statement of Accounts

67. Analysing long term borrowing as a proportion of net revenue stream gives an indication of the relative indebtedness of the council. The council is committed to reducing its borrowing over time which is largely the trend displayed by Exhibit 7. However, Exhibit 8 shows that Aberdeen continues to be among the councils at the higher end of the scale when borrowing as a percentage of net funding stream is compared.

Exhibit 8: Scottish councils' long term borrowing as a percentage of net revenue stream



Source:

Scottish councils' unaudited accounts 2014/15 (excluding Orkney and Shetland Island councils)

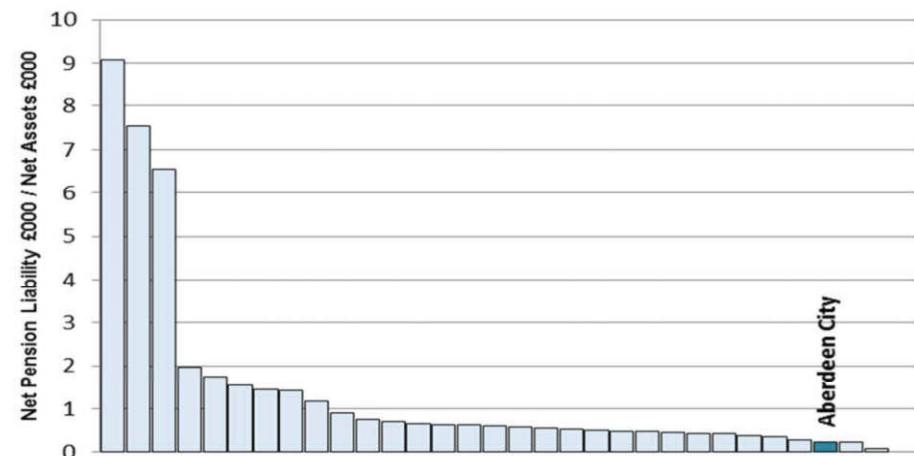
Asset Management

68. A Corporate Asset Management Plan was approved as part of the non-housing capital budget for 2014/15 on 6 February 2014. 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.

Pension liability

69. During the year, the council's pension liability increased by £44.626m to £289.155m. The pension liability represents the difference between expected future pension payments and the underlying value of pension fund assets available to meet this cost. Exhibit 9 below shows that the pension liability is amongst the lowest in Scotland.

Exhibit 9: Scottish councils' pension liability as a percentage of net assets



Source: Scottish councils' unaudited accounts 2014/15 (excluding Falkirk Council)

Conclusion on financial sustainability

70. The council has considerable reserves, is currently containing its expenditure within annual budgets and has credible medium term financial plans in place. Overall, we conclude that the financial position is currently sustainable, although rising demand for and costs of services will continue to place a strain on the council's capacity to deliver services at current levels.

Outlook

71. Councils face increasingly difficult financial challenges. In the context of overall reductions in public sector budgets, between 2010/11 and 2013/14, Scottish Government funding for councils decreased by 8.5 per cent in real terms to £10.3bn. At the same time, demand for council services has increased, largely due to population changes. Increased pension contributions and national insurance changes will create further cost pressures on the council.
72. In common with many other councils, Aberdeen City Council is forecasting a shortfall between income and the cost of providing services over the next few years. With further funding reductions expected, councils face tough decisions to balance their budgets.

Scottish Government's draft 2016/17 budget proposals

73. The Scottish Government would normally publish draft budget proposals in September each year, however it has indicated that 2016/17 proposals will not be produced until after the UK Government's Spending Review in late November 2015. This will have implications for councils' budget setting processes in the run up to February 2016 when councils traditionally set their budget for the coming financial year.

Reclassification of Non-Profit Distributing (NDP) Projects

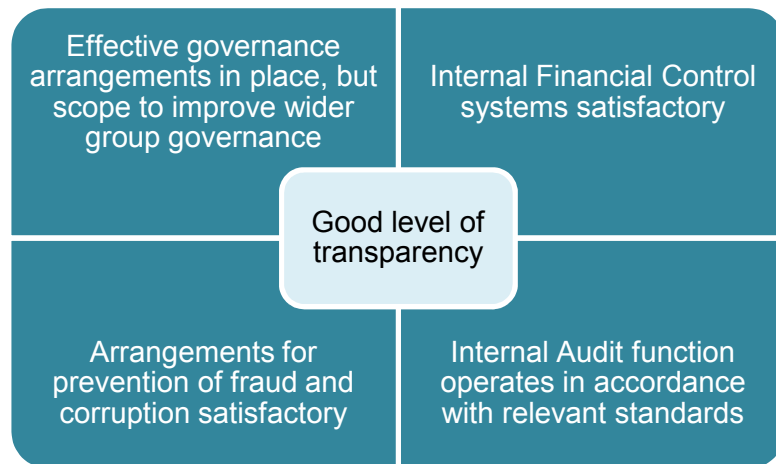
74. The European System of Accounts 2010 (ESA10) law was introduced on 1 September 2014 in the UK with the publication of the UK National Accounts. These new public accounting law means that all costs associated with existing and future infrastructure projects under the hub scheme and non-profit distributing (NPD) initiative will now be added to the public debt figure, instead of being kept off the government's balance sheet.
75. The Office for National Statistics (ONS) assesses bodies and transactions against international rules to decide how they should be treated in the National Accounts. In the majority of cases classification is relatively straightforward, but detailed investigation may be required to ensure the economic reality is reflected in the statistics. Common decisions include whether a body is in the private or public sector, or in the public sector whether entities are government bodies or public corporations.

- 76. Private contractors and lenders will be required to pay all the upfront building and project costs which will be added to the long term debt of the public body and paid off over a period of time through the unitary charge. The public sector will not be permitted to make upfront capital contributions to building costs as several NDP schemes had intended to do but instead any payments to the private sector will take the form of unitary charges through revenue funding.
- 77. The ONS recently classified the Aberdeen Western Peripheral Route (AWPR) as on the Government's balance sheet. The Cabinet Secretary for Finance, Constitution and Economy has indicated that the project will still run on time and on budget but that the government is considering the contractual changes needed to bring the AWPR under private sector classification. Developments on the AWPR during 2014/15 are set out at paragraphs 143 to 145.
- 78. Aberdeen's plans for a new South of the City Academy are progressing. An NPD scheme could have applied, but this will now be subject to further review.
- 80. The Council and other local partners will require to enter into legal agreements with the UK and Scottish Governments and other public bodies as required to implement the City Region Deal and will require a Governance structure to be agreed at a regional City and Shire level

City Region Deal

- 79. In March 2015, Aberdeen City Council and Aberdeenshire Council entered into formal negotiations with the UK Cabinet Office for a City Region Deal. If successful, this could see up to £2.9bn of funding for infrastructure in the area over the next 20 years, supported by an economic strategy focusing on internationalisation, innovation and skills.

Governance and transparency – overall arrangements



- 81. Members and management of the council are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements.
- 82. Citizens should be able to hold the council to account about the services it provides. Councils should therefore be transparent by making accessible and understandable information available about how the council is taking decisions and how it is using its resources

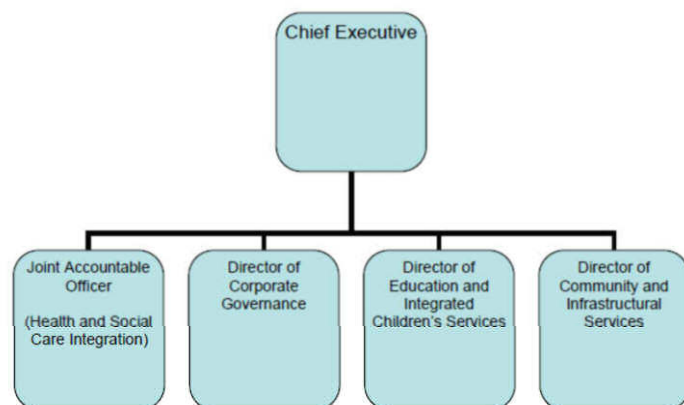
- 83. The council has adopted a local code of corporate governance which reflects the 6 key principals as set out in the CIPFA/SOLACE Framework Corporate Governance in Local Government. The council discloses how it demonstrates compliance with these principles and any developments during the year in its Annual Governance Statement. We reviewed the statement and found it to be an accurate reflection of the council's arrangements.

Corporate governance

- 84. 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.
- 85. 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).
- 86. The Director of Corporate Governance role has been unfilled since May 2014. It was initially filled on an acting up basis, however following an unsuccessful recruitment campaign, the Chief Executive took on the role from May 2015. A new recruitment campaign for the post was launched in July 2015.

87. 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 concluded.

Exhibit 10 – Revised senior management structure



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

88. The Head of Legal & Democratic Services, who acts as the council's Monitoring Officer left in April 2015. The new postholder took up the role in July 2015, with the Head of Commercial and Procurement Services acting as the council's Monitoring Officer in the interim.
89. A new Leader of the council was appointed in May 2014. She had previously been the chair of the 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.

Audit, Risk and Scrutiny Committee

90. Following a self evaluation exercise, a number of changes have been made to the Audit and Risk Committee. The committee has been renamed the Audit, Risk and Scrutiny Committee to more accurately reflect its scrutiny responsibilities. As part of the refresh, two additional members were appointed taking total membership to seventeen. The committee's remit has also been extended to cover the following areas:
- to receive reports on whistleblowing and other investigations
 - the approval of an anti-fraud policy and monitoring its implementation
 - commissioning investigations to secure value for money in the delivery of services
 - to oversee the processes by which services are exposed to competition and contracts are let, where the council itself is a bidder for the work.
91. Following the resignation from the council of the previous convenor in May 2015, a new convenor, the Leader of the Opposition, already a member of the committee, was appointed as the new convenor.
92. The committee has recognised the need for specialist training for members to ensure that they can fully discharge their scrutiny role. A number of training sessions have been held throughout the year covering topics such as the role of an audit committee, risk, internal audit and financial reporting. We noted that all members of the committee had attended these courses.

- 93. In June 2015 the committee approved its first Annual Report, which was subsequently presented to the full council in August 2015. The report was intended to improve transparency, understanding and challenge the activity and outcomes from the committee. It provided a summary of activity, membership details and attendance, the role of the key officers who support the committee, outcomes from the self evaluation and areas of focus for 2015/16.
- 94. While it was a helpful first annual report, there are plans in place to build on the success of the first report. We would suggest that the impact of the report could be increased and governance further strengthened if the committee drew conclusions on its work for the year, highlighted areas of concern and endorsed good practice. There is also scope to introduce performance targets.
- 95. We have reviewed the operation of the committee more generally and found that it meets the CIPFA Audit Committee Principals of good practice.

Internal control

- 96. As part of our audit we reviewed the high level controls in a number of systems fundamental to the preparation of the financial statements. Our objective was to obtain evidence to support our opinion on the council's financial statements.
- 97. We reported our findings to the Audit, Risk and Scrutiny Committee in June 2015. No material weaknesses in the accounting and internal control systems were identified which could adversely affect the ability to record, process, summarise and report financial and

other relevant data so as to result in a material misstatement in the financial statements. Our findings included a number of recommendations to enhance the control system in operation.

Internal audit

- 98. Internal audit provides members and management of the council with independent assurance on risk management, internal control and corporate governance processes. Generally, we seek to rely on the work of internal audit wherever possible and, as part of our 2014/15 planning process, we concluded that the internal audit service operated in accordance with relevant Public Sector Internal Audit Standards (PSIAS) which enabled us to take assurance from their documentation and reporting procedures.
- 99. We placed formal reliance on internal audit's Continuous Financial Controls activity to support our audit opinion on the financial statements. This work reviewed key financial control systems, for example, payroll, accounts payable, accounts receivable, treasury management, council tax and non-domestic rates.

ICT audit

- 100. The council's ICT service is undergoing a period of significant change. The organisation of the service has been restructured, the external contract for hosting servers is due for renewal and options for future delivery of many ICT services, such as a shared service desk and data centre, are currently being developed.

- 101. Our review provided a high-level risk based assessment of the management of ICT services in five key areas: Strategy, Organisation, Service Delivery, Asset Protection and Business Continuity.
- 102. Overall, we concluded that the council has sound controls over the delivery of its ICT services. Governance and organisational arrangements underpin a service that is configured to support business needs.

Arrangements for the prevention and detection of fraud

- 103. The council's arrangements in relation to the prevention and detection of fraud and irregularities was generally satisfactory, and will be strengthened by the recent approval of a revised Fraud, Bribery and Corruption Strategy.

National Fraud Initiative in Scotland

- 104. The National Fraud Initiative (NFI) in Scotland brings together data from public sector bodies to help identify and prevent a wide range of frauds. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud.
- 105. We were required to review the council's arrangements for responding to NFI, particularly with regard to the council's approach to dealing with data matches in a timely fashion. In our Interim Report issued in June 2015, we noted that the council changed its

key contact for NFI to the Investigations Manager. This officer was however involved in the transfer of benefit fraud cases to the Single Fraud Investigation Service with effect from 1 April 2015 and consequently, limited progress had been made in following up matches, particularly high risk matches.

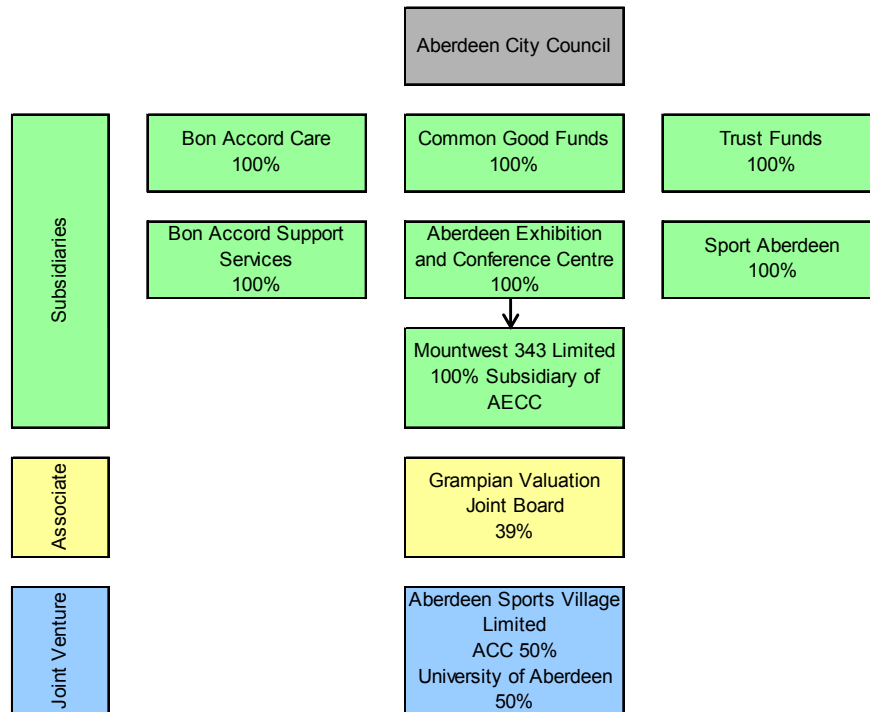
Arrangements for maintaining standards of conduct and the prevention and detection of corruption

- 106. 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.

Governance of ALEOs

- 107. As of June 2015, the council has put in place a framework of governance hubs for its group entities (Exhibit 11), also referred to as Arm's Length External Organisations (ALEO's), to provide assurance around their governance arrangements. The introduction of governance hubs was in response to recommendations originally made by Internal Audit in April 2013.
- 108. The remit of the hubs is to receive, through an agreed data set, a high level statement of assurance from ALEOs on the effectiveness of their systems of governance and operational performance, with a view to ensuring that the outcomes of that organisation are being met, and the risks to that organisation and to the Council are mitigated and managed.

Exhibit 11 – Aberdeen City Council Group Structure



Source: Aberdeen City Council Annual Accounts 2014/15

109. The first meetings of the Governance Hubs took place in June 2015, with Bon Accord Care, Aberdeen Sports Village, Sport Aberdeen and AECC being reviewed. Agenda items covered included:

- Risk mitigation and management
- Financial governance
- Decision making

- HR compliance and best practice
- Commercial compliance and best practice
- Operational performance

110. The first meeting of the hub was intended to provide an overview of the key governance processes in place at each ALEO. The hubs received a range of evidence, for example, risk registers, financial regulations and HR policies, to provide reassurance in the areas of risk/governance and operational performance. Council officers involved represented a variety of disciplines, for example finance, risk management and procurement and each had the opportunity to ask questions of ALEO staff on the evidence received.

111. Minutes of the hubs were presented to the Audit, Risk and Scrutiny Committee in June 2015 and further reports will be prepared for relevant service committees in autumn 2015.

112. Future hub meetings will consider two agenda items in more depth on a cyclical basis. As the hubs are due to meet every 6 months, this means it could be over a year before all governance areas are subject to an in depth review.

113. As these arrangements have only just been implemented, it is too early to draw conclusions as to their effectiveness. However after attending all of the initial hub meetings we would make the following observations:

- hubs should meet more frequently than every 6 months until all agenda areas have been subject to an initial in depth review

- although minutes are presented to the Audit, Risk & Scrutiny Committee, the hubs should consider preparing a formal report to the committee stating an opinion on whether or not governance arrangements are satisfactory and any areas for improvement.
114. We intend to monitor the continued development of the Governance Hubs throughout the 2015/16 audit year.

Refer Action Plan, Recommendation 4

Conclusion on Governance

115. We concluded that the council itself has effective governance arrangements which could be further developed within its wider group structure. It will take time to embed new governance hub arrangements in respect of its ALEOs. In addition, more could be done in response to the National Fraud Initiative.

Transparency

116. Agenda items for all council meetings are posted on the council's website a week in advance. However, we noted that additional agenda items are fairly regularly circulated after initial publication dates. The availability of financial monitoring reports has already been covered at paragraph 44.
117. A decision sheet is publicly available after each meeting of the council and committees and minutes are available once they are agreed. Our review of council minutes did not highlight that

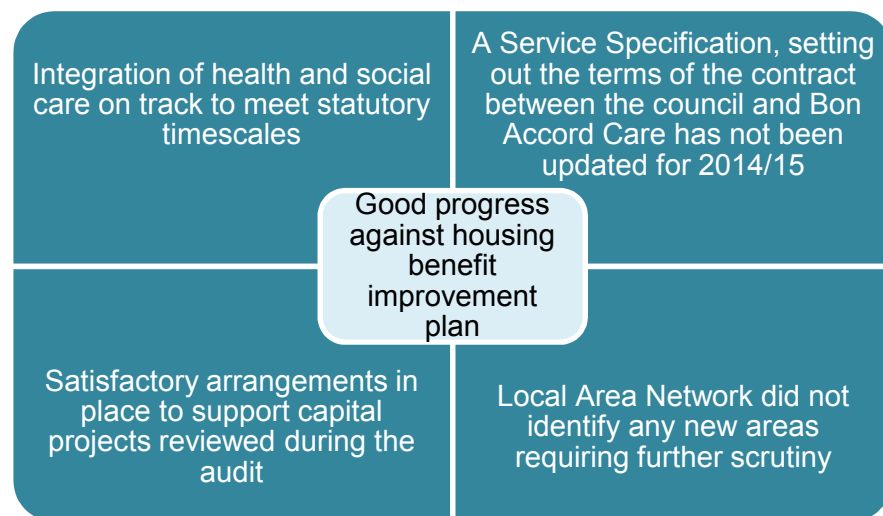
excessive numbers of items were held in private. Where items were in private, the reasons for doing so were clearly stated.

118. After a trial in October 2014, the council agreed to a web-casting service for one year. To date two council meetings, in June and August 2015, have been web cast and these are available online.
119. The council recently introduced a Petitions Committee to enable individuals, community groups or other organisations to raise issues of concern with members. So far five petitions have been considered by the committee.
120. Overall, we concluded that the council has a good level of transparency with regards to its decision making and reporting of financial performance.

Outlook

121. From April 2015, the council commenced a shared services agreement with Aberdeenshire Council to deliver Internal Audit services. This is expected to provide annual savings of around £217,000. A plan was put in place to manage the transition from the previous internal auditor who had delivered the service since 2010
122. Partnership, joint working and arm's length organisations have become increasingly popular vehicles for planning and delivering council services and there is a sustained national focus on their use. Where council services are being delivered in this way, it is crucial that robust assurance and governance arrangements are put in place, while at the same time ensuring an appropriate level of accountability for public money.

Governance and transparency – wider scope



- 123.** The Code of Audit Practice recognises the increasingly high expectations the public has about the role of audit in the stewardship of public funds. It defines the wider scope of public audit as going beyond the financial statements to include work that contributes to audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance and performance management arrangements and financial sustainability.

- 124.** In our Annual Audit Plan, presented to the Audit, Risk & Scrutiny Committee on 26 February 2015, we identified a number of risks which fell under the definition of our wider scope responsibilities. In this section, we conclude on these risks. We also comment on a number of other aspects of the council which we have reviewed during the year.

Integration of health and social care

- 125.** The Public Bodies (Joint Working) (Scotland) Act received royal assent on 1 April 2014. The Act provides the framework for the integration of health and social care services in Scotland.
- 126.** The council and NHS Grampian have agreed an Integrated Joint Board (IJB) model for Aberdeen. The restructure of the council's management team 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.
- 127.** A shadow IJB is in operation from 1 April 2015 and is working to develop arrangements prior to the 'going live' date of 1 April 2016 for the full IJB. Where an IJB is established during 2015/16, it does not assume responsibilities until 1 April 2016 but it will be expected to prepare annual accounts for 2015/16 and be subject to external audit.
- 128.** Both the council and NHS Grampian approved the Aberdeen City Health and Social Care Integration Scheme at separate meetings on 4 March 2015 and subsequently it was submitted to the Scottish

Government for final approval prior to the 1 April 2015 deadline.

Following discussions with the Scottish Government the shadow IJB has until March 2016 to finalise the Integration Scheme.

- 129.** The scheme sets out the legal framework in which both the council and NHS Grampian have agreed to work to deliver on the objectives of the IJB. The voting membership of the IJB will comprise of four members of the council, three from the administration and one from the opposition, and four health board members.
- 130.** An Integration Work Plan has been developed and is updated and discussed at each monthly meeting of the shadow IJB. The work plan sets out the key actions and milestones required to develop the IJB.
- 131.** The shadow IJB have agreed on a number of actions to develop governance arrangements. These include approval of a Strategic Vision, Standing Orders, Risk Register and the management structure. A Governance and Assurance Framework is currently being developed with the Good Governance Institute.
- 132.** A budget monitoring report covering the first 2 months of the 2015/16 financial year were presented to the shadow IJB in July 2015. This was the first such report as budgeting remains within the remit of both the council and NHS Grampian until the IJB comes formally into being. The shadow IJB agreed to receive future budget monitoring reports every 2 months, with any additional updates to be included in the regular Chief Officers reports.
- 133.** In May 2015 the Scottish Government issued final guidance for Integration Financial Assurance at both pre- and post-integration

stages. This sets out the assurances required from audit committees within each of the partner bodies, and subsequently from the IJB when established. Prior to the introduction of the IJB the Audit, Risk and Scrutiny Committee will be required to obtain assurance:

- on the finance provisions to be included in the integration scheme
 - on the plans for financial governance and financial assurance and risk
 - that lessons have been learned from other integration projects
 - that the financial metrics to be used in future to assess whether integration has met its objectives have been identified and that a process for obtaining baseline data is in place.
- 134.** The Internal Audit plan has been updated to review integration arrangements and regular reports are expected during 2015/16.

Refer Action Plan, Recommendation 5

Bon Accord Care – Adult social care services

- 135.** On 1 April 2013, 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.

- 136.** A Service Specification document for the period from 1 April 2013 to 31 March 2014 was prepared which set out the service outcomes and standards that would apply to all services provided by BAC on behalf of the council. The specification included a contract price and the terms of how this could be reviewed and adjusted. We found that although a new contract price was agreed with BAC, the operational details contained in the service specification had not been updated for 2014/15 financial year.
- 137.** The service specification also stipulated that a contract review meeting should take place quarterly between the Council and the BAC at which matters relating to the Performance Framework and performance monitoring should be discussed. We understand that no contract review meetings have taken place since the establishment of BAC.
- 138.** In terms of scrutiny, a BAC report covering the first 12 months of trading to August 2014 was presented to council in October 2014, and this provided the opportunity for members to ask questions of the Chief Executive of BAC/BASS. In December 2014, members asked further questions on a number of financial aspects of BAC/BASS and the impact on the council. The formal channel for such scrutiny was intended to be through a Shareholder Scrutiny Group (SSG) of elected members who would hold directors to account and consider performance. This met on 2 occasions during the year, in November 2014 and February 2015. A report was prepared outlining the high level governance arrangements in place and members were given the chance to ask questions of directors of BAC/BASS. The SSG has now been disbanded and replaced with the ALEO Governance Hub arrangements. As these arrangements have only just been implemented, there is some way to go before BAC/BASS are routinely and effectively scrutinised.
- 139.** In total, payments of £26.260m were made to BASS in the year. As this is a significant level of expenditure, it is important that the council has systems in place to ensure that there is adequate scrutiny. With the integration of health and social care, it is unclear at this stage where responsibility for monitoring of BAC/BASS will lie given the council and the Integrated Joint Board are both interested parties. More generally, the shadow board is currently giving its future scrutiny arrangements due consideration.
- 140.** The original business plan for BAC envisioned that the company would generate around £3m in additional income over a 5 year period from the sale of various services to the wider community over and above the contract with the council. This would enable the company to achieve a profit each year, which could be returned to the council by way of dividends. BAC recognised income generation from additional sources as the highest risk in its risk register in June 2015, however the associated employer status is considered to limit potential for business development.
- 141.** The annual accounts of both BAC and BASS show that the companies have made a combined loss in 2014/15 of £0.838m (£0.873m in 13/14). BAC and BASS annual accounts have been prepared on a going concern basis only as a result of guarantees from the council confirming ongoing financial support. We would also highlight that while the companies have a licence to occupy

agreement with the council for the use of office accommodation, the council has not yet raised any invoices in respect of the associated charges. Since Bon Accord commenced trading in August 2013, the total amount due until 31 March 2015 is £1.45m. Steps should be taken to issue the relevant invoices as soon as possible. We will continue to monitor BAC's financial position during 2015/16.

142. We would summarise the position of Bon Accord Care as follows:

- there has been limited scrutiny of the performance of BAC against the service specification
- the companies have made a loss in their first full year of trading and have recognised that the ability to generate additional income is challenging
- the availability and scrutiny of performance information has been limited and needs to be improved.

Refer Action Plan, Recommendation 4

Capital Investment

143. Through its Strategic Infrastructure Plan (SIP), the council is taking forward a number of significant developments. Several projects have complex funding arrangements, involving different models of working with external partners and agencies and consequently, these projects are quite different in nature to traditional projects historically funded by borrowing. We comment on 3 of the most significant projects in 2014/15 below.

Aberdeen Western Peripheral Route (AWPR)

- 144.** Construction of the Western Peripheral Route is the responsibility of Transport Scotland. Governance of the project, such as monitoring expenditure, is undertaken by Transport Scotland. The council's role in the project is to provide a share of the funding and to manage delivery as Managing Agent.
- 145.** Funding for AWPR has been the subject of a tripartite Memorandum of Understanding (MoU) between the Scottish Ministers, Aberdeen City Council and Aberdeenshire Council signed on 30 October 2003 and subsequently varied in April 2007 and April 2013 to reflect changes to the project. The MoU confirmed that the level of funding contributions from the two partner local authorities would be restricted at the lower of either a maximum of £75m or 9.5% each.
- 146.** The approved 2014/15 - 2018/19 non-housing capital plan includes expenditure of £57m over the 5 year period. Total expenditure in 2014/15 amounted to £17.243m.

Hydrogen Buses

- 147.** The council has worked in partnership to secure a range of funding streams at both Scottish and European level to enable a fleet of 10 hydrogen powered buses to be acquired. The fleet is owned by the council, and leased out to two local bus operators for use.
- 148.** The lease out to the bus operators has been classified as an operating lease. We reviewed the terms of the lease agreements and confirmed our agreement with this treatment. The fleet and

associated infrastructure has been included in the 2014/15 annual accounts with a total value of £10.645m.

Marischal Square Development

Introduction

149. As part of our Annual Audit Plan, we identified the Marischal Square development as relevant to our audit of the 2014/15 financial statements. There is some public opposition to the development and we received a number of pieces of correspondence on the matter during the year. We also met with campaigners to hear their concerns. Where appropriate, the matters raised with us informed the scope of our work. Exhibit 12 sets out a timeline of relevant events for the development.

150. In March 2015, the council affirmed its decision to proceed with the Marischal Square development, a public/private sector collaboration, with Muse Developments, which involves a sale and leaseback arrangement covering a 35 year period.

151. Muse was selected following a two-stage competitive public procurement process but the council's decision became the subject of a judicial review. When it became known that Muse had offered a sale and leaseback arrangement, other bidders felt they should have been allowed the opportunity to submit a bid on a similar basis.

Exhibit 12 – Timeline of events between 2005 and 2015

- June 2005 Council office accommodation option appraisal
- December 2006 Marischal College to become new council headquarters
- November 2009 Plans put in place to redevelop St Nicholas House site
- April 2012 Marketing of St Nicholas House site
- May 2013 Appointment of Muse as preferred bidder
- June 2013 Tender process challenged in the Court of Session
- October 2014 Planning application approved
- December 2014 Sale of site to Aviva Investors
- March 2015 Council decision affirmed

Source: Aberdeen City Council agenda papers

152. In July 2013, Lord Brailsford's opinion was that a sale and leaseback arrangement was appropriate and that it would have been inappropriate for the council to seek further bids from other developers on the basis of a sale and lease back arrangement. It is routine practice, in line with International Auditing Standards, for auditors to rely on the expert opinions of a wide range of professionals. In this case, we took assurance from the legal opinion and consequently, we did not carry out any further audit work in relation to the tender process which selected the preferred bidder.

Impact on financial statements

- 153.** In December 2014, the council concluded the sale of the St Nicholas House site to Aviva Investors for £10m. This is reflected in the 2014/15 financial statements as a capital receipt of £1m with a long term debtor of £9m to be received on completion of construction in 2017. At that point, the council will enter into a 35 year lease arrangement with Aviva for £5 million per annum. This will be reflected in future council balance sheets as a finance lease.
- 154.** In addition, the council anticipates a share in the net rental income from the site which will reduce the impact of the cost incurred through the finance lease and if assumed occupancy rates are reached, the council will achieve a surplus over the life of the project. The annual lease payment represents less than 1% of the council's 2014/15 cost of services net expenditure figure of £456m. However, the deal also provides for a period of void rent and includes a profit sharing account and if necessary, these factors should provide the council with a reasonable cushion.
- 155.** In recognition of the fact that regeneration is one of the council's priorities, the capital budget has an allocation of approximately £20 million (5%) in its 5 year programme totalling £394 million which will be used to enable the council to progress regeneration projects and /or enable partnership funding to be secured. We would suggest that the council's strategy for the release of this funding could usefully set out a framework identifying the type and level of city centre investment it wishes to support.

Refer Action Plan, Recommendation 6

Strategic objectives

- 156.** In 2013, the council published its Strategic Infrastructure Plan which identified city centre regeneration and 'a better image for Aberdeen' among its key priorities. In order to support this work, a city centre regeneration board was established along with a capital budget as outlined above. One of the projects included in this programme was the Marischal Square Development.
- 157.** Options for the site first appeared in 2006 as part of the Bon Accord Quarter Masterplan when plans emerged for the redevelopment of Marischal College as the council's headquarters, the transfer of staff from the former St Nicholas House and thereafter, the marketing of the site. From the outset, the site was intended to be a mixed use site involving office accommodation, hotel and retail units. The site was marketed in 2012 bringing to a conclusion a plan which had been put in motion in 2005. The council considered whether or not to clear the site before disposal but finally favoured demolition as a more effective way of enabling regeneration in the city centre.

Decision making

- 158.** In line with good practice, the council secured appropriate expert advice to support the decisions taken. Throughout the process, the council were supported by property advisors. Ryden was appointed initially to market the site and worked with the council in the selection of the preferred bidder. Thereafter, Ryden has continued to support the development through the project delivery group. CBRE Hotels also supported the council in taking forward the hotel aspect of the development.

- 159.** Muse was identified as the preferred bidder in May 2013 with Aviva as its funding partner, conditional missives were signed in December 2013 and after planning permission for the project was granted, formal agreements were signed in December 2014. All shortlisted bidders prepared full market analysis as part of their final bids in spring 2013. We considered Ryden's six monthly property reviews for 2013 and 2014 which continued to report high economic activity in respect of Aberdeen's office accommodation. It was not until October 2014 that results changed and a relatively poor six months of office take up in Aberdeen was reported. At the point the council and Muse committed to the project, the market was confirming a continuing demand for office accommodation.
- 160.** A working group of elected members was set up to consider the bids, hear presentations and undertake the tender scoring exercise. As part of that process, elected members and officers considered a range of information from bidders including their investment strategy and funding arrangements. On conclusion of the working group's discussions, a summary of each of the bidder's proposals together with the outcome of the scoring exercise were summarised in a report to full council. Ryden supported officers and elected members in reaching decisions.
- 161.** We confirmed that key decisions in respect of this project were taken by full council and we understand that progress reports will also come forward to members. The process for progress reporting to elected members could be improved by the identification of clearer triggers for a report.
- 162.** Being part of the strategic infrastructure plan (SIP), the development also features in the SIP dashboard which is regularly monitored by the Finance, Policy and Resources Committee. The dashboard uses traffic lights to demonstrate progress and covers a range of factors including timeline, risk, budget and benefits.
- Risk management**
- 163.** From the outset of the project, the council was alert to the risks involved. Aware that there was less demand for city centre accommodation at that particular time, the council opted to adopt a two stage marketing approach in 2012. The initial stage aimed to judge the level of interest in developing such a site before proceeding to a full scale tender. At stage 1 there were 12 bids of which 4 were invited to proceed to stage 2.
- 164.** A project delivery group comprising staff from Muse, Aberdeen City Council and Aviva and expert advice as required meet on a regular basis. This forum is the focal point for discussion of emerging issues, ensuring that actions are going to plan and providing the necessary links back to the council at both officer and member level. A monthly cash flow and high level risk register is maintained by the head of finance and updated on a regular basis. This includes scenario planning of best and worst case occupancy rates as a means of stress testing break even requirements. There is scope for operational matters to be recorded within an issues log and to be kept under review by the project delivery group.

Conclusions

- 165. In respect of the 2014/15 financial statements, relevant transactions have been appropriately included in the accounts. In future years, the council's balance sheet will include the finance lease within its liabilities. As these future commitments become clearer, amounts should be built into medium and long term plans.
- 166. There is a history behind the development which emerged in 2005 following a detailed options appraisal for a new council headquarters. This began the regeneration of the city centre through development of the site which culminated in the marketing of the site in 2012.
- 167. Appropriate processes have been followed in reaching key project decisions and where appropriate, the council secured expert advice to support the decision making process. We also concluded that the council has good awareness of the risks associated with the project and it should continue to manage its financial exposure to mitigate these risks accordingly.

Housing benefits performance audit

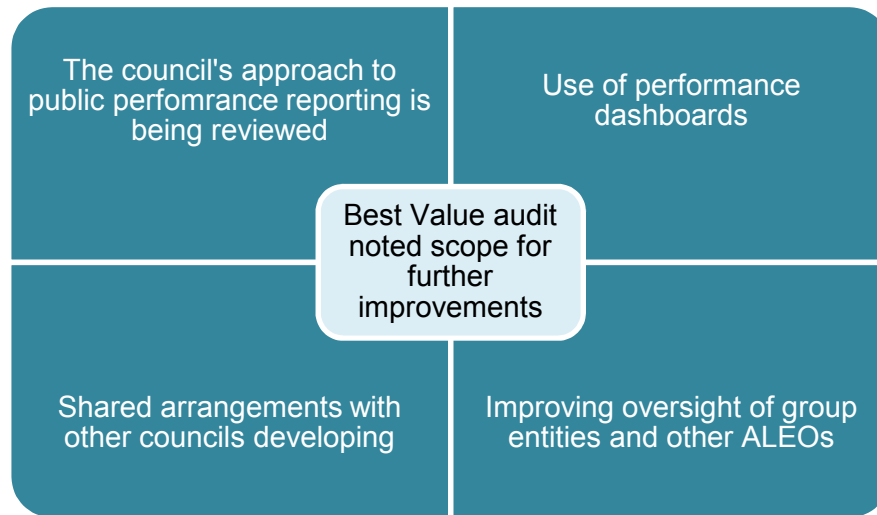
- 168. Separate from the audit of the council's housing benefit subsidy claim, Audit Scotland carries out a programme of Housing Benefit risk assessments. A review was undertaken in June 2015 following completion and submission of a self-assessment in May 2015. This noted that significant progress had been made since the previous risk assessment in November 2012. These included changes to the structure of the service, with the introduction of a Quality Assurance Team and working in partnership with the Department of Work and

Pensions (DWP) Performance Development Team to identify further areas for improvements to workflow.

Local scrutiny plan

- 169. The 2015/16 Local Scrutiny Plan (LSP) prepared by the Local Area Network (LAN) of scrutiny partners for the council was submitted to Aberdeen City Council on 25 June 2015. The LAN did not identify any new areas which require scrutiny; however there are areas where ongoing oversight and monitoring is required. For example, a key challenge for the council remains the need to raise the standards of educational attainment and achievement for all. Strategies implemented by the council to improve performance in this area are monitored on a regular basis by Education Scotland's Area Lead Officer who meets regularly with the council.

Best Value



- 170.** Best value is a key factor to consider when planning policies, programmes and projects and when taking any spending decisions. The council should have systems and processes to ensure that it can demonstrate that it is delivering best value by assessing and reporting on the economy, efficiency, effectiveness and equality in service provision.

Best Value audit

- 171.** 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. Audit fieldwork took place in January 2015 and assessed:

- whether the council has set a clear vision for Aberdeen which is shared across all parts of the council and the city of Aberdeen
 - whether the council has effective systems in place to implement its vision and deliver Best Value
 - whether the council has effective systems of scrutiny, performance management and improvement in place at the council and its arm's-length organisations
 - the effectiveness of member/officer working relationships.
- 172.** The findings were presented to the Accounts Commission in June 2015. The Accounts Commission welcomed the progress made by the Council in a number of areas since 2009, including financial planning and management, and openness to alternative service delivery arrangements. However it also noted that there is a great deal more improvement to be delivered and consolidated.
- 173.** The Accounts Commission considered that it was too early to assess the effectiveness of much of the improvements put in place or which have yet to be fully implemented, and therefore required the Controller of Audit to note continuing interest in the council and to monitor and report back if there is evidence that improvements are not being delivered or embedded.

Performance management

- 174.** Performance reports are presented regularly to each service committee and have been revised to reflect the remits for the new committee structure. The format of reports, including the number of indicators provided, continue to vary significantly across services. For example, comparison against target is used but trend information is not consistently used. We have not identified any reporting of performance at a council level during 2014/15.
- 175.** 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.
- 176.** Whilst 'Aberdeen Performs' contains performance information relating to each of the councils 'Smarter' priorities, in many cases it is not clear as to which period the information relates to and some reported information is now out of date.
- 177.** In our interim Report of June 2015 we noted that plans should be formalised for the development of a consistent approach for reporting performance information to elected members and arrangements for the refresh of 'Aberdeen Performs'. We understand that work is ongoing to review public performance reporting, and we intend to review this area in 2015/16.
- 178.** Since March 2014, the Corporate Management Team has reviewed the council's performance using a performance dashboard. The dashboard shows indicators against 4 themes – improving customer experience, improving staff experience, improving use of resources and delivering outcomes. The dashboard is available on the council's intranet site which allows for the most up to date information to be viewed at any time by all staff.
- 179.** In our 2013/14 Annual Audit Report we highlighted declining performance regarding Housing, Homelessness and Roads. The performance in these areas in 2014/15 was as follows:
- the percentage of housing applications processed within 28 days of receipt is 76%, increasing from 64.8% in 2013/14 as a result of new monitoring measures to improve case management. This is however still below the target of 84%
 - the average length of homeless journey (from presentation to discharge of duty) has been discontinued and replaced with 2 new indicators. The average journey time for statutory homeless cases was 165 days against a target of 150 days and for non-statutory homeless cases it was 171 days against a target of 250 days
 - the percentage of Category 1 and 2 pothole repairs completed within target time was 92.5% compared to only 79.2% in 2013/14.

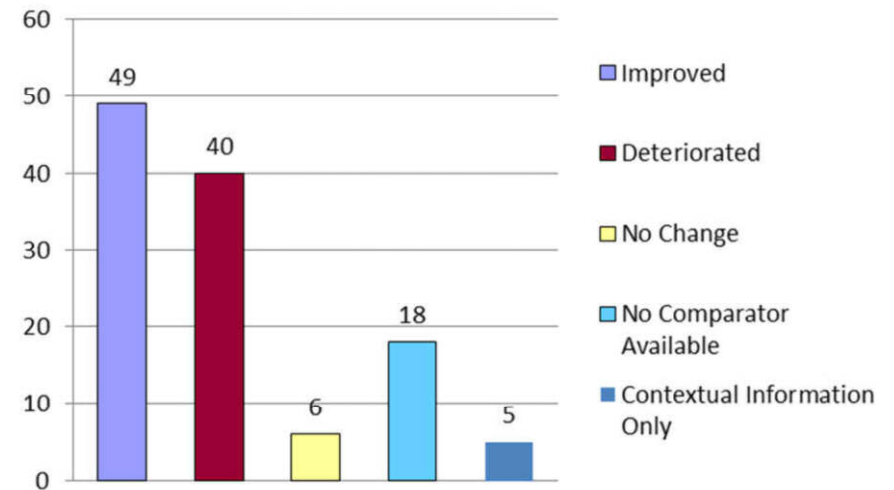
Refer Action Plan, Recommendation 7

Statutory performance indicators (SPIs)

- 180.** The Accounts Commission places great emphasis on councils' responsibility for public performance reporting. The Commission does not prescribe how councils should report but expects councils to provide citizens with fair, balanced and engaging performance information reporting.
- 181.** For 2014/15 three (SPIs) were prescribed:
- SPI 1: covering a range of information relating to areas of corporate management such as employees, assets and equalities and diversity
 - SPI 2: covering 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.
- 182.** An evaluation of all Scottish councils' approaches to public performance reporting was carried out by Audit Scotland's Performance Audit and Best Value group during 2014/15 and reported to the Accounts Commission in June 2015. An individual assessment for Aberdeen City Council was issued to the Leader and Chief Executive in June 2015.
- 183.** The review found that for the SPIs 1 and 2, the council were alone in the lowest quartile, complying with only 4 out of 18 themes. The council fully complied with SPI 3.

- 184.** The council has produced a total of 118 indicators covering SPI's 1 and 2 for 2014/15. A summary of the council's SPIs for 2014/15 compared with 2013/14 is set out in Exhibit 13.

Exhibit 13 – Direction of Performance 2013/14 - 2014/15



Source: Audit analysis of council's SPIs

- 185.** The following list includes examples from the 49 indicators where performance has improved during the year:
- average number of days to process new benefit claims – 20.02 days (38.12 days in 2013/14)
 - percentage of Criminal Justice Social Work reports submitted to courts by the due date – 99.85% (99.49%)
 - average time in weeks to deal with planning applications for major developments – 47.6 weeks (75.9 weeks in 2013/14)

- percentage of homeless households who are housed where there is a council duty to secure permanent accommodation – 82.9% (77.3% in 2013/14)
- percentage of all traffic light repairs completed within 48 hours – 98.2% (96.8% in 2013/14).

186. Among the 40 indicators which showed a deterioration in performance from last year are:

- percentage complaints dealt with within time – 59.54% (65.75% in 2013/14)
- number of people aged 65+ receiving a Community Care service who are supported to stay at home – 1,496 (1,581 in 2013/14)
- average time in weeks to deal with householder planning applications – 12.8 weeks (10.0 weeks in 2013/14)
- percentage of looked after young people and families at risk supported to stay together or in their own communities – 48.64% (52.45%)
- percentage of trading standards inspection visits to high risk premises achieved – 75.49% (96.19% in 2013/14).

National performance audit reports

187. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2014/15, a number of reports were issued which are of direct interest to the council. These are outlined in appendix III. The Audit, Risk and Scrutiny Committee receive regular reports on the council's response to all national performance audit reports.

Equalities

188. The Equality Act 2010 introduced a new public sector 'general duty' which encourages equality to be mainstreamed into public bodies' core work. The Finance Policy and Resources Committee approved the councils Equality Outcomes and Mainstreaming Progress Report 2015 on 23 April 2015.

Outlook

189. In common with other councils, Aberdeen City Council faces the key challenges of reducing budgets, an ageing population with higher levels of need and the public expectation of high quality services. As choices on how to address funding gaps become increasingly difficult, councils will have to focus on making the very best use of all available resources and challenge existing ways of doing things. A strong and effective performance management framework will be critical to the success of the council achieving its key priorities and achieving best value.

Appendix I – Significant audit risks

The table below sets out the financial statement audit risks we identified during the course of the audit and how we addressed each risk in arriving at our opinion on the financial statements.

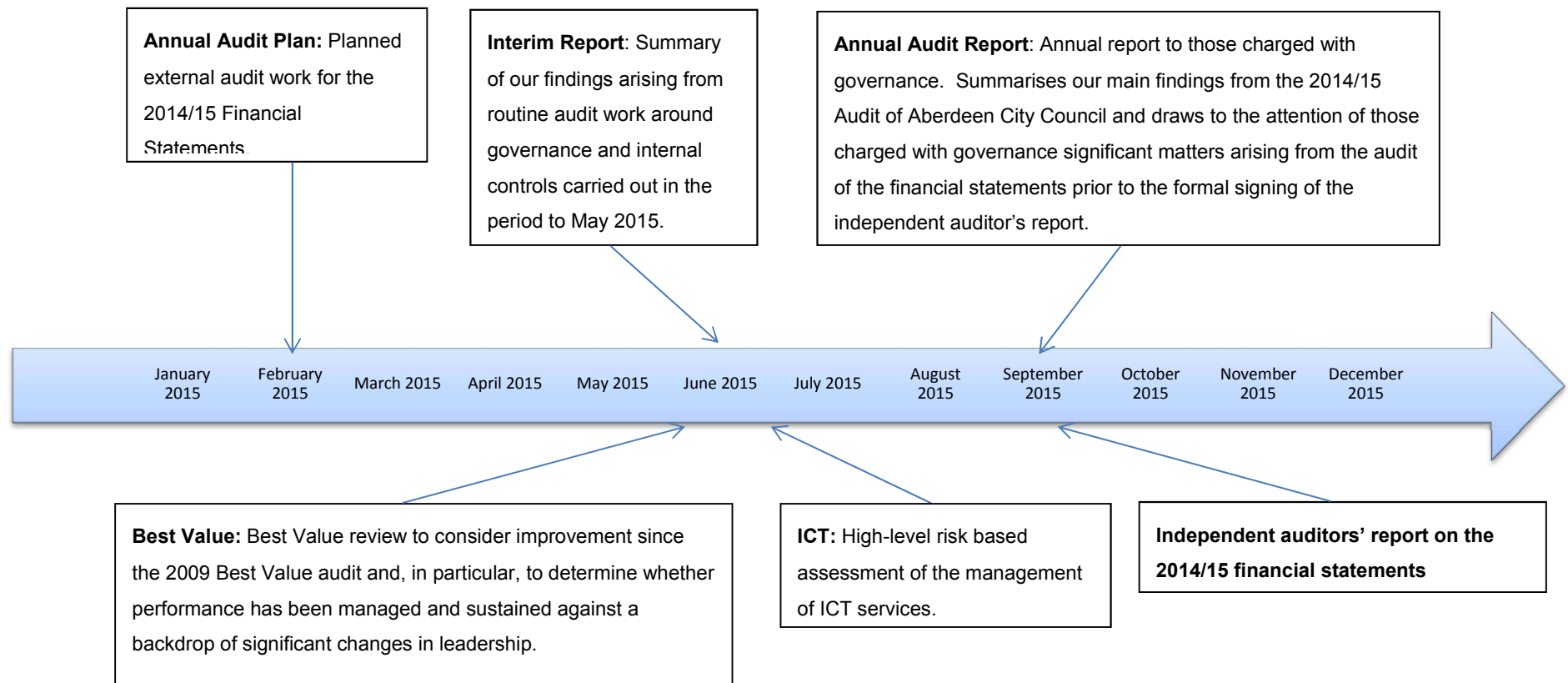
Audit Risk	Assurance procedure	Results and conclusions
Risk of material misstatement		
<p>Local Authority Accounts (Scotland) Regulations 2014 (2014 regulations)</p> <p>The 2014 regulations introduce a number of key changes with regard to the processes for approval and publication of both the unaudited and audited annual accounts.</p> <p>There is a risk that the new requirements are not met.</p>	<ul style="list-style-type: none"> • Annual Accounts Action Plan prepared taking all key dates into account • Early planning meeting held with Head of Finance and his team to agree an approach to enable an earlier conclusion to the audit to ensure the audited accounts meet the timetable for the Audit, Risk and Scrutiny Committee. 	<p>We met with officers early in the 2014/15 audit to agree a joint timetable for delivery of audited accounts to meet the requirements of the regulations. Regular discussions have been held throughout the audit to ensure that plans were proceeding as expected.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Income recognition</p> <p>Aberdeen City Council receives a significant amount of income in addition to Scottish Government funding. The extent and complexity of income means there is an inherent risk of fraud in accordance with ISA240.</p>	<ul style="list-style-type: none"> • Confirmation of the key controls in place for Trade Receivables, Council Tax, Non Domestic Rates and Cash & Banking • Substantive testing of a sample of income transactions, including agreement of amounts received from Scottish Government, grant income and other income • Testing of a sample of income received at year end to confirm it was allocated to the correct financial year. 	<ul style="list-style-type: none"> • Key Controls - Testing of the key controls in place including reliance on work carried out by Internal Audit, where appropriate, did not highlight any significant weaknesses in financial control systems. • Income Transactions - We substantively tested the total Revenue Support Grant to Scottish Government confirmation, a sample of 5 grants received and 9 items of other income. We found all had been accounted for correctly. • Year end income - Sample testing of 10 income items received at year end found that all were allocated to the correct financial year. • No fraud concerns identified in respect of income.
<p>Management override of controls</p> <p>As stated in ISA240, management in all entities is in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries • Review of accounting estimates for bias • Evaluating significant transactions that are outside the normal course of business. 	<ul style="list-style-type: none"> • Journals - a sample of 45 journal entries was tested as part of debtors (15) and creditors (30) testing. We found no evidence to suggest that management were overriding controls. • Estimates - based on testing of debtors, creditors and provisions/contingencies, we found no evidence of bias in accounting estimates. • Significant transactions - based on our work on the annual accounts, we did not find any evidence of transactions outwith the scope of the council. • No fraud concerns identified in respect of management override of controls.

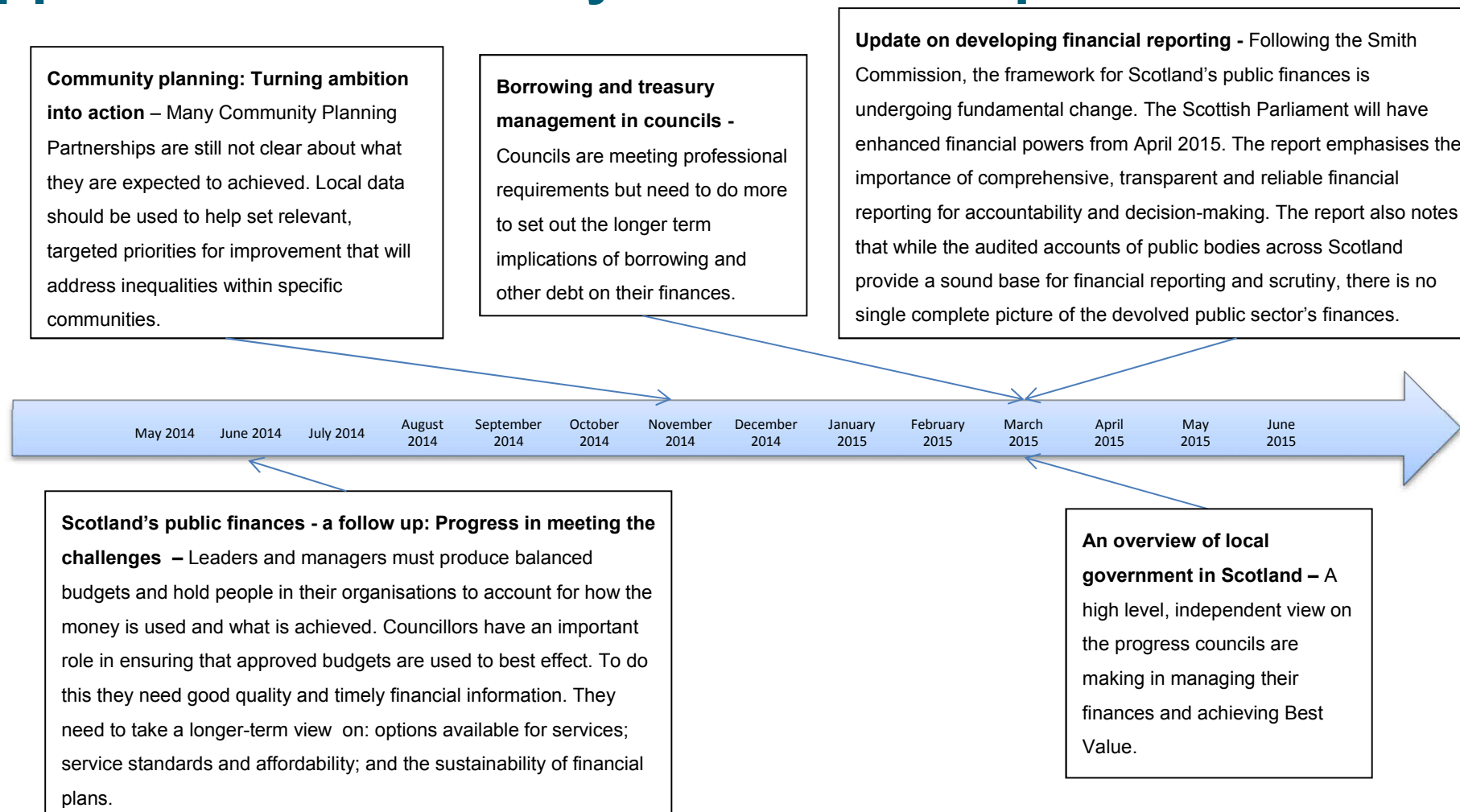
Audit Risk	Assurance procedure	Results and conclusions
<p>Group Accounting Standards</p> <p>The Code of practice on local authority accounting in the United Kingdom 2014/15 (the Code) requires authorities to prepare group financial statements in accordance with relevant accounting standards. These have been updated for 2014/15.</p> <p>There is a risk that group relationships and transactions included in the financial statements do not comply with accounting standards.</p>	<ul style="list-style-type: none"> • Reviewed client's procedures for identifying potential group relationships • Considered disclosures made of related parties for any omissions from group structure • Review of client working papers. 	<p>The council has in place a robust methodology for identifying potential group relationships by way of a signed return required of all Heads of Service. Our review of related parties did not highlight any further organisations which should be included in the council's group. Overall we are satisfied that all relevant bodies have been included in the council's group accounts and accounted for under the correct classification.</p> <p>We have reviewed the council's working papers for the preparation of the group accounts and are satisfied that all material transactions have been included in the consolidated accounts.</p>
<p>Holiday pay</p> <p>A recent legal ruling reached the opinion that the calculation of holiday pay could be based on variable payments in addition to basic pay and that employees and former employees may be able to make retrospective claims.</p> <p>There is a risk that provisions included in the financial statements do not meet the criteria set out in accounting standards.</p>	<ul style="list-style-type: none"> • Reviewed the assumptions used by the council in the calculation of the level of provisions. 	<p>We have reviewed the level of all provisions included in the annual accounts and concluded that they are satisfactory.</p>

Audit Risk	Assurance procedure	Results and conclusions
<p>Capital investment</p> <p>Through its Strategic Infrastructure Plan (SIP), the council is taking forward a number of significant developments. Several projects have complex funding arrangements, involve different models of working with external partners and agencies and consequently, there are potential technical accounting issues to resolve.</p> <p>There is a risk that significant transactions are not treated correctly in the financial statements leading to a potential misstatement in the results.</p>	<ul style="list-style-type: none"> • Substantive testing of a sample of capital expenditure invoices, additions/deletions from the Asset Register, revaluations and depreciation calculations • Review of the accounting entries arising from the sale of the St Nicholas House site, in particular how the deferred element of the sale price had been treated • Review of accounting entries for other significant projects impacting on 2014/15 – Hydrogen Buses and Aberdeen Western Peripheral Route (AWPR). 	<p>We tested 13 capital invoices, 5 additions, 5 disposals, including the St Nicholas House site mentioned elsewhere in the report, 12 revaluations and 10 depreciation calculations. All were found to be satisfactory.</p> <p>The Hydrogen Bus fleet came into operation during the year. The fleet is owned by the council and leased to 2 local bus companies. We reviewed the terms of the lease agreements, and were satisfied that these have been correctly classified as operating leases by the council.</p> <p>The council is Managing Agent on behalf of Transport Scotland for constructing the AWPR. This means that all payments are made by the council, who in turn reclaim amounts from both Transport Scotland and Aberdeenshire Council. We are satisfied that this arrangement has been appropriately disclosed in the accounts.</p>
<p>Highway assets</p> <p>The 2016/17 Code requires highways to be measured for the first time on a depreciated replacement cost basis from 1 April 2016. 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.</p> <p>There is a risk that the new valuations will not be available when required.</p>	<ul style="list-style-type: none"> • Ongoing discussions with finance and infrastructure officers. 	<p>The council has set up a working group of officers from both the Finance and Roads functions to address this requirement. We are satisfied that work is on schedule to ensure that the council will meet the implementation of the new valuation method.</p>

Appendix II - Summary of local audit reports 2014/15



Appendix III - Summary of national reports 2014/15



Appendix IV - Action plan

No/para	Issue/Risk/Recommendation	Management action/response	Responsible officer	Target date
1/51	<p>Shared Section 95 Officer arrangement</p> <p>The shared arrangement will have operated for 12 months by December 2015. A review of the pilot period is expected at that point.</p> <p>Risk: the review may not cover all the critical factors</p> <p>Recommendation: All aspects of the shared arrangement should be considered across both councils e.g. development opportunities, all costs, geography.</p>	The review will consider the perspectives of both councils and the officers involved, taking account of all relevant aspects, including the extent to which both consider they are deriving value from the arrangement. Initial discussions have taken place with the relevant Director in SIC and this will be followed up as part of the review to be reported to committee in December 2015.	Head of Human Resources & Customer Services	3 December 2015
2/58 -60	<p>Financial position</p> <p>The council has a significant task ahead in meeting the funding shortfall set out in its 5 year business plan.</p> <p>Risk: the ongoing need to deliver savings may have an adverse impact on services and the delivery of strategic priorities.</p> <p>Recommendation: the council needs to develop its strategy for delivering the savings required over the next 5 year period. This should bring together the different strands of work which are in progress e.g. shared service opportunities, outcome budgeting and service targets.</p>	Work is well underway to progress the 2016/17 and indicative 5 year budgets. The council's approach to financial planning, incorporating the Extended Corporate Management Team into the process, ensures that all options are considered in developing a strategy to deal with future financial pressures. Progress is also being made in the development of an outcome based budgeting approach for future years.	Head of Finance, in conjunction with the Corporate Management Team & Extended Management Team	Update position in February 2016

No/para	Issue/Risk/Recommendation	Management action/response	Responsible officer	Target date
3/62 and 3/65	<p>Long term financial planning</p> <p>Longer term horizon scanning through the development of long term planning will support the strategic infrastructure plan but also give a more rounded view of the financial landscape. In addition, links should be made with workforce plans.</p> <p><i>Risk: financial difficulties arise through unexpected events</i></p> <p>Recommendation: Long term planning continues to be developed.</p>	The importance of long term financial planning is acknowledged and will continue to be developed.	Head of Finance, in conjunction with the Corporate Management Team	Update position in February 2016
4/107 – 114 and 4/135 – 142	<p>ALEOs</p> <p>The first round of hub meetings have now taken place with a plan to meet on a six monthly basis.</p> <p><i>Risk: the bedding in period may be too long and momentum lost so that it is some time before an effective scrutiny routine is in place.</i></p> <p>Recommendation: consider more meetings in the initial period until everybody is up to speed and the initial teething problems have been sorted out.</p>	The first meeting of officers to consider requirements for the next round of hubs will take place by 30 September 2015 so whilst the formal hub meetings may be every 6 months, officers are working in the intervening period on the actions from the previous meetings and developing plans for the next one. Officers are aiming to improve the quality and robustness of the process and the meetings.	Head of Democratic Services	Ongoing

No/para	Issue/Risk/Recommendation	Management action/response	Responsible officer	Target date
5/125 - 134	<p>Health and social care integration</p> <p>Preparations are moving apace for the implementation of the integration board with effect from 1 April 2016, including the identification of necessary resources, and discussions are taking place around the scrutiny requirements.</p> <p><i>Risk: the required actions are not completed and the Board is unable to take responsibility from April 2016.</i></p> <p>Recommendation: regular engagement continues between the Shadow Integration Joint Board (SIJB) and officers to ensure that priorities are delivered.</p>	<p>Arrangements have been in place for some time to progress integration which includes regular engagement between the SIJB and officers. This will continue throughout the year to ensure that what is a statutory timescale will be met. A work plan is in place with regular updates on progress being reported to the SIJB. The team are also working closely with the Scottish Government to get approval of the Scheme of Delegation.</p>	<p>Chief Officer, Aberdeen Health & Social Care Partnership</p>	<p>1 April 2016</p>
6/155	<p>Marischal Square Development</p> <p>In responding to economic conditions, the council may mitigate risks by providing financial support, for example, rental assistance to encourage city centre investment.</p> <p><i>Risk: the council's rationale for offering support lacks transparency</i></p> <p>Recommendation: The council's should set out a framework which explains the type and level of regeneration investment it wishes to financially support.</p>		<p>Corporate Management Team</p>	<p>Update by 31 March 2016</p>

No/para	Issue/Risk/Recommendation	Management action/response	Responsible officer	Target date
7/174 - 179	<p>Performance management</p> <p>While improvements are being made to performance management processes in the council, there is more to do.</p> <p><i>Risk: Performance issues may not be promptly identified and thus corrective action not taken timeously. Public performance reporting is not easily accessible for users.</i></p> <p>Recommendation: Performance reports, both council wide and at service level, should be available timeously with comparable information to improve overall scrutiny and public performance reporting.</p>	<p>Proposals for implementing a consistent approach will be developed and presented to elected members for approval.</p> <p>'Aberdeen Performs' is updated when performance data becomes available. A refresh is scheduled for 2015/16 to reappraise the method in which performance information is communicated to the public in light of developing corporate priorities.</p>	<p>Head of IT and Transformation</p> <p>Head of Communications and Promotion</p>	<p>31 March 2016</p> <p>31 March 2016</p>