

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny
DATE	27 June 2016
INTERIM DIRECTOR	Richard Ellis
TITLE OF REPORT	Unaudited Annual Accounts 2015/16
REPORT NUMBER	CG/16/088
CHECKLIST COMPLETED	Yes

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide Elected Members with an overview of the Council's 2015/16 unaudited Annual Accounts.
- 1.2 To enable scrutiny of and approval by the Committee on the content of the Annual Governance Statement. The statement has been included in the 2015/16 unaudited Annual Accounts subject to this approval.
- 1.3 The report also provides the unaudited Annual Accounts for those registered charities where the Council is the sole trustee and is subject to statutory requirements for separate accounts and audit opinions.

2. RECOMMENDATION(S)

It is recommended that the Committee:

- a) approve the Annual Governance Statement as included in the Council's unaudited Annual Accounts for the financial year 2015/16;
- b) consider the Council's unaudited Annual Accounts 2015/16, paying particular attention to the sections highlighted in paragraph 5.4;
- c) consider the unaudited Annual Accounts 2015/16 of the Council's registered charities;
- d) note that following this meeting the Council's and the registered charities unaudited Annual Accounts will be finalised, signed and submitted to Audit Scotland by 30 June 2016;
- e) note that as now required by Regulation 8(9) of The Local Authority Accounts (Scotland) Regulations 2014 (the "2014 Regulations"), the Audit, Risk & Scrutiny Committee on 27 September 2016 will receive the Council's audited Annual Accounts for consideration and approval prior to their signature by the Head of Finance, Chief Executive and the Council Leader;
- f) note that the Audit, Risk & Scrutiny Committee of 27 September 2016 will also receive the external auditor's "Annual Report Members and the

Controller of Audit” for debate and consideration and that this report will set out the auditor’s finding and conclusions from all audit activity undertaken during the year, highlight the significant issues arising from the audit of the annual accounts and inform Elected Members of the proposed audit opinion in advance of the accounts being certified; and

- g) note that the Audit, Risk & Scrutiny Committee on 27 September 2016 will also receive the audited Annual Accounts for the registered charities for consideration and approval prior to their signature along with the associated external auditor’s report.

3. FINANCIAL IMPLICATIONS

- 3.1 There are no direct financial implications arising from this report.

- 3.2 The overall financial position of the Council was reported to and considered by the Finance, Policy & Resources Committee on 7 June 2016 and is available via:

<http://committees.aberdeencity.gov.uk/documents/s57418/FPR%20Year%20End%202015-16%20FINAL%20ISSUED%20Replacement2.pdf>

4. OTHER IMPLICATIONS

- 4.1 The preparation of the Annual Governance Statement is a part of the Council’s compliance with the CIPFA (The Chartered Institute of Public Finance and Accountancy) / SOLACE (Society of Local Authority Chief Executives) guidance on ‘Delivering Good Governance in Local Government 2016’.

- 4.2 There is a statutory requirement under the 2014 Regulations for the Council to produce both unaudited and audited Annual Accounts within certain timescales and to a high standard. This is a major task which requires co-operation and input from a large number of people across all services of the Council. It is only with the commitment of all staff that these high standards and deadlines can be met.

5. BACKGROUND/MAIN ISSUES

5.1 Annual Governance Statement

- 5.1.1 The 2014 Regulations specify that the Annual Accounts must include an Annual Governance Statement (AGS).

- 5.1.2 The AGS should be produced in accordance with proper accounting practices and the CIPFA/SOLACE Framework: Delivering Good Governance in Local Government.

- 5.1.3 The Council has developed its approach to the annual governance review process and in 2015/16 has again undertaken a self-evaluation of the effectiveness of its Local Code of Corporate Governance.

- 5.1.4 There are different layers of assurance that have been considered and used in determining the content of the AGS. These include management assurance, the internal audit assurance framework, and the consideration of external audit and external scrutiny.
- 5.1.5 Management assurance includes the certification of internal controls and assurance by all Heads of Service, along with an assurance statement having been received by, or on behalf of, the Chief Executive of the group entities.
- 5.1.6 Further confidence is based on the operational structure and legislative framework that exists for the Council, including the continuity that has been maintained in relation to statutory posts throughout the year.
- 5.1.7 The Standing Orders, Terms of Reference and Scheme of Delegation define the roles and responsibilities for officers and Elected Members.
- 5.1.8 Development of the system of risk management has continued throughout the year and the Committee has received a range of reports on progress in this respect.
- 5.1.9 The accounting team work closely with budget holders to ensure that a positive relationship exists and there is openness and transparency about decision making and the financial implications.
- 5.1.10 Management assurance has also been used in considering the progress that has been made around the seven significant issues identified in last years' statement. During 2015/16, sufficient progress has been made in addressing five issues such that they have been removed. For the remaining two, whilst progress has been made management feel they have not yet been fully completed and therefore require to be kept on the AGS for 2014/15. These are described below in paragraphs 5.1.11 – 5.1.12
- 5.1.11 A national investigation in relation to allegations made regarding baby and adult cremations including those at Hazlehead Crematorium is being undertaken. The outcome and recommendations arising from this investigation will be reported in due course and meantime this issue remains on the AGS.
- 5.1.12 An incident involving a member of the public is now the subject of a civil claim and therefore remains on the AGS.
- 5.1.13 In undertaking a self-evaluation of the Council's effectiveness of its governance framework a number of officers have reviewed the Local Code using the CIPFA/SOLACE checklists and drawn judgements on the extent to which the Council is effectively complying with the code.
- 5.1.14 The results of this were positive as each question on the checklist was able to be evaluated as being compliant with the local code requirements.

- 5.1.15 Independent scrutiny is undertaken by the Internal Audit function, which was carried out by the Internal Audit team from Aberdeenshire Council. They have consistently provided management and the Committee with recommendations on improvements that can be implemented for the benefit, amongst other things, of the control environment.
- 5.1.16 The annual report from the Head of Internal Audit on the work that they've carried out in 2015/16 is also being considered by this Committee. The content of this has supported the preparation of the AGS.
- 5.1.17 The report highlights the number of audits in the year was 26 with 168 recommendations made which were accepted by management and once implemented will improve the Council's internal control environment. The report concludes that reasonable assurance can be placed on the adequacy and effectiveness of the internal control systems.
- 5.1.18 Of the recommendations made, two were classed as major at a corporate level and eight major at a service level/within the audited area. Whilst all ten were initially considered for inclusion in the AGS, nine were considered to have progressed sufficiently such that they did not need to be included in the AGS.
- 5.1.19 The remaining one relates to the terms and conditions of craft workers which will be progressed further during 2016/17.
- 5.1.20 External scrutiny is required by legislation and the Council's external auditor, Audit Scotland, reports on a variety of areas, not simply the financial statements and financial control environment. These reports have been considered in preparing the AGS for 2015/16.
- 5.1.21 In conclusion and in examining the evidence, the 2015/16 AGS has been prepared with an approach of openness and accountability that recognises the positive framework that the Council has and the effectiveness of it during the financial year. It should be noted that the Statement has been produced by management and is not an independent expression of audit opinion.
- 5.1.22 The Annual Governance Statement is signed on behalf of Aberdeen City Council by the Chief Executive and Leader of the Council. It is recommended for approval prior to being signed off.

5.2 Unaudited Annual Accounts

- 5.2.1 On 9th March 2016 this committee received and noted the contents of a report, "Annual Accounts 2015/16 – Action Plan" which provided high level information and key dates in relation to the production of the 2015/16 Annual Accounts.

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

31 March 2016	End of the financial year 2015/16
March – Sept 2016	Information from Group Entities (including ALEO's)
17 June 2016	Public Notice for the Public Inspection Period to be issued
27 June 2016	Audit, Risk and Scrutiny Committee to consider the draft Annual Accounts
30 June 2016	Statutory deadline for the Proper Officer to sign the draft Annual Accounts, submit to the Auditor and publish on the website
1 – 21 July 2016	Public Inspection Period for the draft Annual Accounts
30 July 2016	Deadline for submission of the Whole of Government Accounts (WGA) to the Scottish Government
27 September 2016	Audit, Risk and Scrutiny Committee to consider and aim to approve the audited Annual Accounts for signature
27/28 Sept 2016	Signing of the audited Annual Accounts by the Proper Officer, Chief Executive and Council Leader
28 September 2016	Deadline for submission of the signed audited Annual Accounts to the Auditor
Early October 2016	Deadline for submission of the audited WGA to the Scottish Government (date to be confirmed)
31 October 2016	Statutory deadline for the publication on the website of the signed Annual Accounts & Audit Certificate, related Auditor report and accounts of all subsidiary bodies
16 December 2016	Deadline for submission of the audited Charitable Trust Annual Accounts to OSCR

5.2.3 There is a statutory requirement that Annual Accounts for each financial year be submitted for audit to the external auditor no later than 30 June in the next financial year.

5.2.4 This means that the unaudited Annual Accounts for 2015/16, prepared in accordance with the relevant Accounting Codes of Practice, require to be submitted by 30 June 2016 to Audit Scotland.

5.2.5 There is also a requirement that the unaudited Annual Accounts be provided to and considered by a committee whose remit includes audit or governance. In recent years this committee has received the accounts prior to submission to the auditor and this is seen as good practice. As the body charged with governance it allows the committee the opportunity to take ownership of the accounts, to review them such as to be satisfied with their completeness before they are submitted for audit.

5.2.6 In February 2016, Audit Scotland published a report "Financial Reporting & Scrutiny: Why the Accounts Matter" which provides a summary of the roles of the s95 officer, elected members and the auditor and highlights the areas elected members may wish to consider when scrutinising the accounts. The report can be seen at Appendix A.

5.3 Inspection and Audit of the Accounts

- 5.3.1 The Local Authority Accounts (Scotland) Regulations 2014 defines the notice period, the inspection period, the deadline for submission of an objection to the accounts and the information which must be made available for inspection. At least 14 days' public notice must be given prior to the commencement of the inspection period. The latest date by which the public inspection can start is 1 July 2016 and therefore the latest date for issuing this public notice is 17 June 2016. The inspection must last 15 working days and will therefore end on 21 July 2016.
- 5.3.2 The Regulations also require publication of the unaudited Annual Accounts, as submitted to the Auditor, on the Council's website until the audited accounts can replace them. This not only provides a means by which the public can access the accounts during the inspection period but also ensures the Council is open and transparent in its reporting.
- 5.3.3 On completion of the audit process, the external auditor's will present their report "Annual Report to Members and the Controller of Audit" to the meeting of this committee on 27 September 2016. This report will highlight any significant issues arising from the audit and inform Elected Members of the proposed audit opinion in advance of the final accounts being certified.
- 5.3.4 The audited Annual Accounts will also be presented to this meeting for consideration and approval for signature. Thereafter, the accounts will be signed by the Head of Finance, Chief Executive and Council Leader. The signed accounts must be submitted to and signed by Audit Scotland no later than 30 September 2016.

5.4 Financial Performance and Review of the Accounts

- 5.4.1 It should be noted that the unaudited Annual Accounts are prepared according to the requirements of the IFRS (International Financial Reporting Standards) based Code of Practice on Local Authority Accounting 2015/16 (the Code) and as a result are more complex and detailed than the information included in the monitoring reports provided to Committee throughout the year.
- 5.4.2 A report detailing the financial position of the Council was considered by the Finance, Policy and Resources committee on 7th June 2016. This report covered the Council's revenue and capital accounts for General Fund, Housing Revenue and Common Good and the reserves and balances of the Council as at 31 March 2016.
- 5.4.3 Against total funding from Council Tax, Non Domestic Rates and Revenue Support Grant of £445.3m, the four core services incurred net spend of £411.7m whilst the net spend on the corporate budgets, including capital financing costs and surpluses from trading operations, was £28.3m.

5.4.4 This expenditure incurred supports a variety of key services to the public and delivers outcomes such as:

Education & Children's Services:

- over 22,000 children educated with 85% of S4 pupils achieving SCQF level 4 in literacy and 90% of school leavers moving on to a positive and sustained destination;
- in excess of 3,500 early years learning places;
- over 180,000 active schools participant sessions; and
- there were almost 2.2m attendances at indoor sports facilities, 1.5m actual and virtual library visits and 1.1m actual and virtual visits to museums.

Adult Social Care:

- home care services provided to 1,800 clients for almost 19,000 hours;
- over 53,000 of respite hours provided, daytime and overnight; and
- almost 1,200 long term residents in care homes.

Communities, Housing & Infrastructure:

- over 2m meals provided in schools from 60 school kitchens;
- housing advice was provided for over 5,000 cases;
- almost 4,000 planning and building warrant applications considered;
- 47,500 square metres of roads were resurfaced and over 11,500 potholes filled;
- over 250,000 bins were emptied and 15,700 bulky uplifts done with almost 95,000 tonnes of waste collected;
- green waste and recyclates amounted to almost 35,000 tonnes; and
- 8.5m square metres of grass was maintained as well as 45,000 metres of hedges, 13,000 trees and 543,000 square metres of flower beds.

5.4.5 To deliver its services the council utilises a number of operational buildings including 64 schools, 21 offices, 80 community, sports, leisure and cultural facilities and 48 care facilities. It uses 600 vehicles for a variety of purposes including waste collection, gritting and clearing snow and is responsible for 914km of roads and 32,000 lighting columns.

5.4.6 The Council is also a significant landlord in the City with 22,000 council houses and 3,000 garages and parking spaces within its Housing Revenue Account and more generally, over 300 investment properties such as shops, offices and commercial/industrial sites

5.4.7 The following paragraphs highlight a number of the key sections of the Annual Accounts.

5.4.8 Management Commentary – focuses on the financial performance of the Council and its group as well as highlighting significant past and future events and comments on the economic climate within which the Council operates.

- 5.4.9 Comprehensive Income & Expenditure Statement (CIES) - reflects the income and expenditure of the Council based on the requirements of accounting standards and is therefore somewhat different to the figures reflected in the management commentary. However, the two can be reconciled through Note 17 to the accounts.
- 5.4.10 Balance Sheet – provides information on the assets and liabilities of the Council together with its usable and unusable reserves. Net assets (i.e. assets less liabilities) have increased by £364.9 million from March 2015 to a total of £1.5 billion at March 2016. The corresponding increase in reserves reflects a £28.2 million decrease in usable reserves and a £393.1 million rise in unusable reserves.
- 5.4.11 Common Good and Trusts – the Common Good CIES and Balance Sheet reflect an increase in the value of its assets which has resulted in its value increasing by £6.8 million to £112.5 million at March 2016. The financial statements of the Trusts now clearly reflect the split between charitable and non charitable trusts. This will aid the separate audit of charitable trusts, which is an OSCR (Office of the Scottish Charity Regulator) requirement and will be carried out by the Council's external auditors.
- 5.4.12 Group Accounts – these include the Council, its subsidiaries, associate and joint venture companies and reflects all the significant entities the Council has a controlling interest in. The group balance sheet shows net assets and reserves of £1.7 billion. A few smaller organisations have been excluded from the financial statements due to their relative size on the grounds of materiality and as such their performance is disclosed simply in the notes to the group accounts.

5.5 Registered Charities

- 5.5.1 This encompasses those trusts, registered with OSCR, for which the Council (all 43 Councillors) is the sole trustee. There are eight separately registered charities which for reporting purposes can be grouped together into a single Annual Report and Accounts. The consolidated balance sheet shows a value of £8.1 million, after the elimination of intra trust balances i.e. the investment in the Lands of Skene by the Guildry and Bridge of Don trusts.
- 5.5.2 These accounts are subject to the same audit process as the Council with the audited accounts and related auditor's report being reported back to this committee on 27 September 2016 for approval prior to signature by the relevant officers and the Council Leader.
- 5.5.3 Thereafter, they will be submitted to OSCR, no later than 23 December 2016.

6. IMPACT

Improving Customer Experience –

Whilst there is no direct impact arising from this report, the publication of the Annual Accounts demonstrates the Council's proper stewardship and accountability of the public funds with which it is entrusted.

Improving Staff Experience –

Whilst there is no direct impact arising from this report, a robust year end process and timetable assists budget holders in their role which in turn should enhance the staff experience.

Improving our use of Resources –

Whilst there is no direct impact arising from this report, the approval and inclusion of the Annual Governance Statement in the Annual Accounts ensures that the Council uses an approach which is recognised as best practice.

Corporate -

Financial governance is a vital part of ensuring that the resources required to take forward the council's plans and vision are robustly monitored and used effectively.

It is the aim of the Council to maintain working balances to a level that provides sufficient scope to deal with unexpected or unforeseen events in order that this does not have a detrimental and immediate impact on service delivery.

Public –

This report is likely to be of interest to the public as it concerns the stewardship of the council's financial resources.

7. MANAGEMENT OF RISK

A robust process is in place for closing the accounts at the financial year-end. This means that all reasonable steps have been taken to ensure that they are reflective of the financial circumstances of the Council during 2015/16 and as at 31 March 2016. Closely adhering to the current statutory reporting framework and the relevant accounting codes of practice as detailed above negates legal compliance risks. A risk remains that the external audit process reveals potential errors or adjustments and these will be discussed by officers and the external auditor throughout the process, before the audited Annual Accounts and the auditor's report and opinion is presented to the Audit, Risk & Scrutiny Committee in September 2016.

8. BACKGROUND PAPERS

'Delivering Good Governance in Local Government, Framework' CIPFA & SOLACE, 2007;

'Delivering Good Governance in Local Government, Guidance Note for Scottish Local Authorities' CIPFA & SOLACE, 2008;

Unaudited Annual Accounts 2015/16

9. REPORT AUTHOR DETAILS

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