



# **Aberdeen City Council**

2015/16 Audit

Annual Audit Report to  
Members and the  
Controller of Audit

September 2016

# Key contacts

Stephen Boyle, Assistant Director  
[sboyle@audit-scotland.gov.uk](mailto:sboyle@audit-scotland.gov.uk)

Anne MacDonald, Senior Audit Manager  
[amacdonald@audit-scotland.gov.uk](mailto:amacdonald@audit-scotland.gov.uk)

Mark Johnstone  
[mjohnstone@audit-scotland.gov.uk](mailto:mjohnstone@audit-scotland.gov.uk)

Audit Scotland  
Business Hub 11, 2nd Floor West  
Marischal College, Broad Street  
Aberdeen  
AB10 1AB  
Telephone: 0131 625 1500  
Website: [www.audit-scotland.gov.uk](http://www.audit-scotland.gov.uk)

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

Stephen Boyle is the engagement lead for the audit 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.




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.

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# Key messages

 <p><b>Audit of financial statements</b></p>	<ul style="list-style-type: none"> <li>• The independent auditor's reports on the 2015/16 financial statements for Aberdeen City Council and its group and the Aberdeen City Council Charitable Trusts are unqualified.</li> <li>• 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.</li> </ul>
 <p><b>Financial management and sustainability</b></p>	<ul style="list-style-type: none"> <li>• The council has a record of sound financial management supported by a level of reserves which is above the average held by local authorities across Scotland. This provides the council with a financial cushion in the short term.</li> <li>• A new 40 year financial model which recognises all existing obligations has been developed.</li> <li>• In line with its Strategic Infrastructure Plan, the council is currently managing a wide range of significant capital projects.</li> </ul>
 <p><b>Governance and transparency</b></p>	<ul style="list-style-type: none"> <li>• The council's strategic priorities have been aligned and linked between the council's refreshed Strategic Business Plan, and Directorate and Service plans (the 'golden thread')</li> <li>• Systems of internal control operated well and new arrangements for the internal audit function meet required standards. There are sound anti-fraud and whistleblowing arrangements in place.</li> <li>• Scrutiny arrangements for ALEOs have had a positive impact. Further development is required to ensure that the council can demonstrate the best return from the funding invested in such services and that there are clear expectations around measuring service performance.</li> </ul>

 Wider scope issues	<ul style="list-style-type: none"><li>• Aberdeen City Integration Joint Board was established in February 2016 and became operational in April 2016. Significant work was carried out during the year to build capacity within the board and to develop working relationships in preparation for it taking responsibility for delegated budgets.</li><li>• Alongside this, the council is embedding governance arrangements to support the City Centre Masterplan, and a City Region Deal with Aberdeenshire Council.</li></ul>
 Best Value	<ul style="list-style-type: none"><li>• The council has made good progress in responding to the areas for improvement identified by the Best Value report of July 2015.</li><li>• There has been cross party elected member involvement in key working groups and evidence of consensus on strategic decisions.</li><li>• A Performance Management Framework has been agreed and a revised template for reporting performance to committee has been piloted with Finance, Policy and Resources Committee. An action plan is in place to improve public performance reporting.</li></ul>
 Outlook	<ul style="list-style-type: none"><li>• Reductions in funding, at the same time as growing demands on services, means that the council will continue to face financial challenges.</li><li>• The value of assets on local authority balances will increase significantly from 2016/17 due to the inclusion of infrastructure assets using a depreciated replacement cost basis of valuation. Across Scotland this will add billions to balance sheets and in Aberdeen this is expected to be around £17bn.</li></ul>

# Introduction

1. This report is a summary of our findings arising from the 2015/16 audit of Aberdeen City Council. The report is divided into sections which reflect our public sector audit model.

## Our Annual Audit Report

2. This report is a summary of our findings arising from the 2015/16 audit of Aberdeen City Council. The report is divided into sections which reflect our public sector audit model.
  - financial statements
  - financial management and sustainability
  - governance and transparency; and
  - best value/value for money
3. Our responsibility, as the external auditor 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. A revised Code was issued in May 2016 and while it is effective from 2016/17, the principles have, where possible, been adopted early as part of the 2015/16 audit.
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. The management of Aberdeen City Council are also responsible for:
  - implementing appropriate internal control systems
  - putting in place proper arrangements for the conduct of its affairs
  - ensuring that the financial position is soundly based.
6. A number of reports have been issued by Audit Scotland during the course of the year. These reports, summarised at [appendix II](#), include recommendations for improvements.
7. [Appendix III](#) 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.

8. 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.
9. The cooperation and assistance afforded to the audit team during the course of the audit is gratefully acknowledged.

### Our audit appointment

10. Audit Scotland is responsible for public sector audit in Scotland with audit appointments generally covering a five year cycle. The financial year 2015/16 is the final year of the current cycle. From 2016/17, the auditor of Aberdeen City Council will be KPMG. In accordance with agreed protocols and International Standards on Auditing we will be liaising with the incoming auditors as part of this transition.
11. From 2016/17, as well as the annual audit report, other significant outputs, such as the annual audit plan, will be published on Audit Scotland's website.

# Audit of the 2015/16 financial statements

<b>Audit opinion</b>	<ul style="list-style-type: none"><li>• We have completed our audit and issued an unqualified independent auditor's report.</li></ul>
<b>Going concern</b>	<ul style="list-style-type: none"><li>• 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's, its group and associated charitable trusts' ability to continue as a going concern.</li></ul>
<b>Other information</b>	<ul style="list-style-type: none"><li>• 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.</li></ul>
<b>Charitable trusts</b>	<ul style="list-style-type: none"><li>• We have completed our audit of the 2015/16 financial statements of the charitable trusts administered by Aberdeen City Council and issued an unqualified independent auditor's report.</li></ul>
<b>Group accounts</b>	<ul style="list-style-type: none"><li>• Aberdeen City Council has accounted for the financial results of seven subsidiaries, one associate and one joint venture in its group accounts for 2015/16. The overall effect of consolidating these balances on the group balance sheet is to increase total reserves and net assets by £111.326m</li></ul>

## Submission of financial statements for audit

12. We received the unaudited financial statements on 14 June 2016, in accordance with the agreed timetable. The working papers were of a good standard and council staff provided good support to the audit team which assisted the delivery of the audit to deadline.
13. In 2015/16, for the first time, local government group accounts are required to include the financial results of Integration Joint Boards (IJBs) in their area, where material. The Aberdeen City IJB was established on 6 February 2016 but did not become operational until 1 April 2016. Consequently the relevant expenditure only amounted to £26k for the period which is not considered to be material and therefore it has not been consolidated into the group accounts.

## Overview of the scope of the audit of the financial statements

14. 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, Risk and Scrutiny Committee on 9 March 2016.
15. 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. The 2015/16 agreed fee for the audit was set out in the Annual Audit Plan and, as we did not carry out any work additional to our planned audit activity, the fee remains unchanged.

16. 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.
17. 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

18. 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).
19. 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.

20. We summarised our approach to materiality in our Annual Audit Plan. Based on our knowledge and understanding of Aberdeen City Council we set our planning materiality for 2015/16 at £8.766m (1% of gross expenditure). We report all misstatements greater than £100k. Performance materiality was calculated at £6.136m, to reduce to an acceptable level the probability of uncorrected and undetected audit differences exceeding our planning materiality level.
21. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that our original calculation remained appropriate.

## Evaluation of misstatements

22. 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 £31.285m, with a corresponding decrease in Net Assets and Total Reserves. The key items are explained in Table 1, following paragraph 26.
23. 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.
24. 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 been adjusted the net impact would have been to decrease the Net Cost of Services by £1.262m, with a corresponding increase in Net Assets and the General Fund.

## Significant findings from the audit

25. 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.
26. Table 1 details those issues or audit judgements that, in our view, require to be communicated to those charged with governance in accordance with ISA 260.

**Table 1: Significant findings from the audit**

Issue
<p><b>1. Property, Plant &amp; Equipment - Revaluation of Council Dwellings</b></p> <p>As part of the council's rolling 5 year valuation programme for property, the majority of the council's dwelling stock was revalued during the year. The total value as at 31 March 2016 was £979.625m, an increase of 42% on the value as at 31 March 2015. This total includes not only the stock of dwellings, but also garage sites and land. In accordance with the Code, the basis of the valuation was Existing Use Value for Social Housing (EUV- SH). A Beacon approach was used to calculate the total EUV of the portfolio and the council engaged the firm Graham &amp; Sibbald to carry out the physical valuation of the beacon properties. To calculate the discount to be applied to EUV to reflect Social Housing values, the council sought advice from professional firm Savills. This advice noted that in the private sector, valuation of a portfolio of housing stock would normally be based on the expected yield of the total rental value. A similar approach was suggested, and if this valuation fell into a range of 35-40% of the EUV this would be an acceptable level for Social Housing. The council used a yield of 8.75%, which was similar to the suggested yield of 8%. This resulted in a valuation of £946.472m, which equated to 38% of the EUV total. As this fell within the suggested range, it was the value used by the council.</p> <p>Errors were identified which impacted on the calculation of the total expected rent for the year. The total number of properties was adjusted from 21,935 to 22,145 to account for the removal of 151 new build properties not included in the revaluation and inclusion of 361 properties used by the Homeless service which had not previously been accounted for. In addition, the original calculation also incorrectly included other charges to the tenant, such as heating, which are included with the rent. These errors resulted in the total expected rent for the year reducing from £82.816m to £80.623m. The cumulative impact of this resulted in the final valuation being overstated by £22.785m. Consequently, Total Comprehensive Expenditure, Net Assets and Total Reserves should be reduced by this amount.</p> <p>While we were satisfied by the overall methodology followed, specific management representations will be required given the material increase in value.</p> <p><b>Resolution:</b> Amendments were made to the revised financial statements and the matter was also included in our letter of representation.</p>

## Issue

### 2. Investment in Aberdeen Sports Village

The council has a 50% share in Aberdeen Sports Village (ASV), a joint venture with the University of Aberdeen. Following completion of 'Phase 2' development at ASV, long term loans provided to ASV by the council and the university were converted into preference shares. This transaction was not reflected in the draft annual accounts which resulted in a reduction in Long Term Debtors and a corresponding adjustment to the Available for Sale Financial Instruments Reserve.

The impact of this is to reduce Total Comprehensive Expenditure by £8.500m, with a corresponding decrease in Net Assets and Total Reserves.

**Resolution:** Amendments made in revised financial statements. This matter was also included in our letter of representation.

### 3. Misclassification of transfer from Reserves as Financing and Investment Income

A transfer from ear marked reserves of £5.000m was incorrectly allocated to Financing and Investment and Expenditure rather than to service expenditure. The impact of this was to increase the Cost of Services, however it had no impact on the Deficit on Provision of Services.

**Resolution:** Amendments made in revised financial statements. This matter was also included in our letter of representation.

### 4. Provision for non-collection

The council has a wide range and age of debtors including council tax payers, rent arrears and sundry debtors. At 31 March 2016 such debtors amounted to £83.6m and the provision for non-collection was £52.1m. Note 4 to the accounts explains the uncertainty exists around certain figures where they are based on assumptions taking historical experience into consideration. As part of the audit we therefore reviewed the adequacy of the provision for non-collection.

**Resolution:** Taking trend information and current collection rates into consideration, we are satisfied that the provision is not materially misstated.

## Issue

### 5. Charities SORP (FRSSE)

In considering the unaudited accounts for Aberdeen City Charitable Trusts against the requirements of the new charities SORP which was implemented with effect from 1 April 2015, there were a number of areas within the Trustees' Report we suggested needed to be strengthened.

**Resolution:** Amendments reflected in revised financial statements.

### 6. Charitable Trusts - Governance documentation

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.

**Resolution:** 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.

## Future accounting and auditing developments

### Health and social care integration

27. IJBs are required to produce financial statements in compliance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). From 1 April 2016, Aberdeen City IJB is responsible for the provision of health and social care in the area and its financial results will need to be reflected in the council's 2016/17 group accounts. The council will therefore need to include the IJB in its future plans for the preparation and audit of group accounts, including consideration of assurance arrangements relating to the annual governance statement.

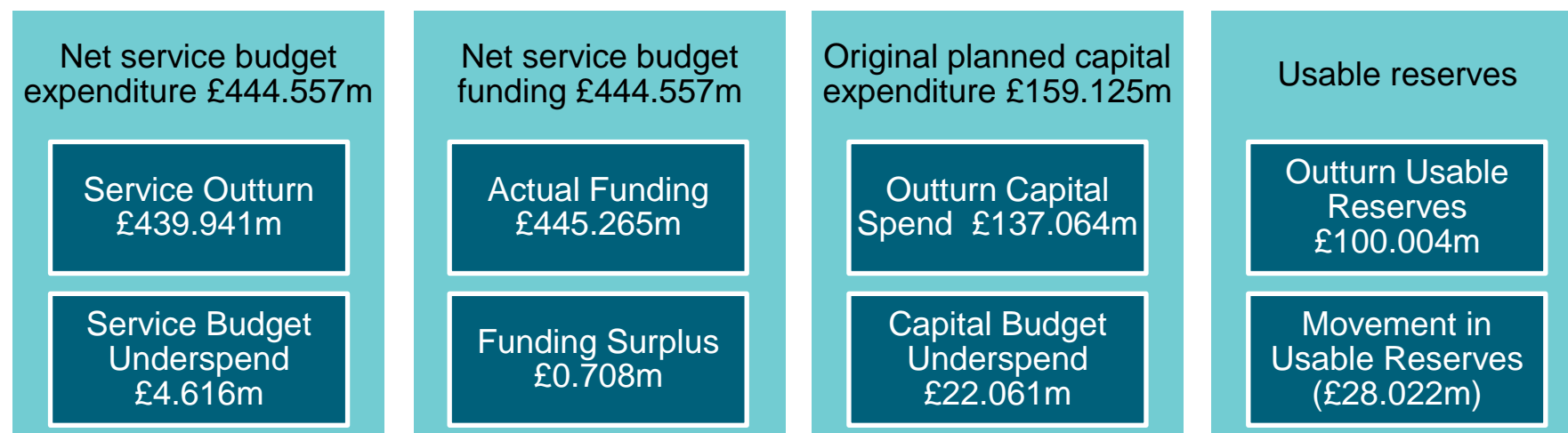
### Highways network assets

28. The 2016/17 Code adopts a new measurement requirement for the valuation of highways network assets which is expected to have a significant impact on the value of local authority balance sheets. Initial estimates for Aberdeen suggest that the value added to its balance sheet will be of the order of £17bn and will be measured on a depreciated replacement costs basis.
29. Aberdeen City Council set up a working group of officers from both the Finance and Roads functions to address this matter. A project plan is in place and work continues to ensure compliance with the new Code requirements. An updated Roads Asset Management Plan (RAMP) is expected to be completed in October 2016 and this

will provide the basis for carriageway surface area to be used in the valuation process. A GIS Layer mapping system has been used to calculate carriageway length, and a sample has been undertaken to check actual width against standard. CIPFA are to provide national rates, amended for local factors, to calculate the overall valuation. The council expects to be notified of these rates in early 2017, with separate rates provided for valuations as at 1 April 2016 and 31 March 2017.

30. The council are to open early discussions with the incoming external auditors regarding the levels of assurance expected and are considering the scope for a specific review of the process by Internal Audit.
31. Overall, we would conclude that the council are well prepared for the introduction of the new valuation methodology and that they recognise the impact and scale of the valuations will have on the council's future balance sheets.

# Financial management and sustainability



## Financial management

32. In this section we comment on the council's financial outcomes and assess the council's financial management arrangements.
33. 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

34. On a statutory basis, the council reported a deficit of £70.339m on the provision of services in 2015/16. Adjusting this balance to remove the accounting entries required by the Code, the council's general fund balance decreased by £5.831m. This decrease reflects use of the councils earmarked reserves carried forward into 2015/16, including £4.553m to fund capital investment in the year.

35. The council reported an underspend against budgeted expenditure of £4.616m and an increase on budgeted funding of £0.708m resulting in a total underspend against budget of £5.324m which equates to 1.2% of budgeted net expenditure. Exhibit 1 shows the level of underspends against net budgeted expenditure over the previous 5 financial years.

**Exhibit 1: General Fund Budget Underspends 2011/12 – 2015/16**

	2011/12	2012/13	2013/14	2014/15	2015/16
<b>Total Net Budgeted Expenditure £000</b>	444,904	451,675	421,222	429,929	444,557
<b>Net Underspend £000</b>	3,909	5,695	8,560	7,528	5,324
<b>Underspend as % of Net Budgeted Expenditure</b>	0.9%	1.3%	2.0%	1.8%	1.2%

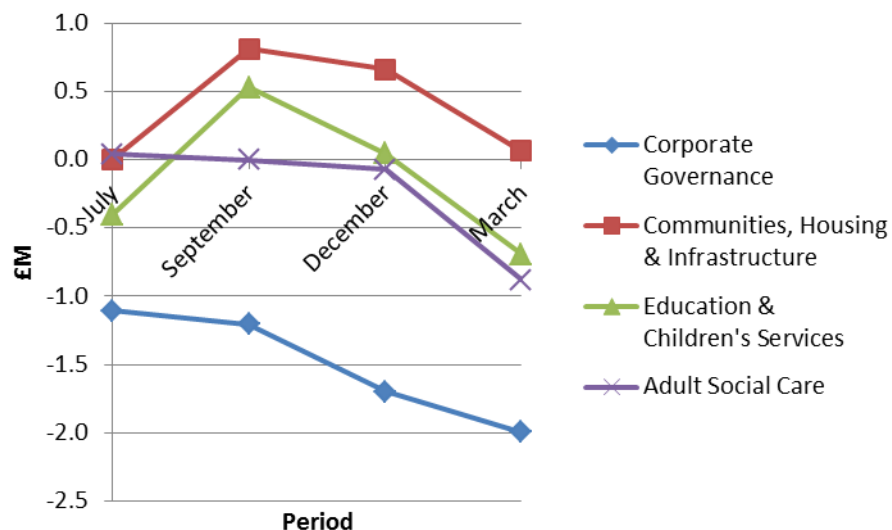
Source: Aberdeen City Council Final Year End Monitoring Reports

36. In overall terms, the management of staff vacancies across all services produced savings of £16.5m (£14.6m - 2014/15), representing 6.6% (6.1% - 2014/15) of the general fund staff budget. Higher than anticipated income levels and an increase in the Band D equivalent properties enabled the council to achieve a greater level of funding than was originally budgeted for.

37. Exhibit 2 shows the departmental projected results and final outturn 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 can partly be explained by, for example, unspent balances on delegated budgets and grants received which are not known until the year end. Key variations against budget included:

- Corporate Governance achieved an underspend of £2.130m, 7.7% of budget, due to underspends in Staff Costs (0.429m), Supplies and Services (£0.523m) and Administration Costs (£0.509m). Recharges to Aberdeenshire Council for the shared procurement service were greater than budget by £0.306k.
- The underspend of £1.023m in Adult Social Care is largely attributable to underspends against budget on commissioned services and direct payments due to actual demand being less than originally anticipated.
- Education and Children's Services unspent balance largely relates to underspends by schools in their delegated budgets which they are permitted to carry forward.

## Exhibit 2: 2015/16 Projected and Final Outturn Variance against Budget – Key Services



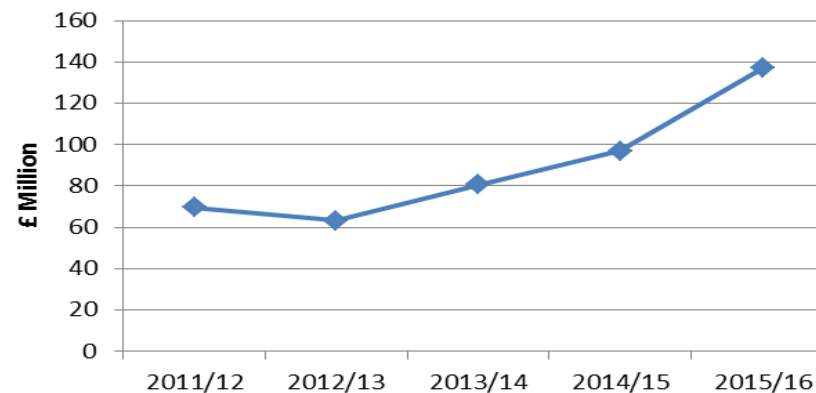
Source: Aberdeen City Council Revenue Budget Monitoring Reports

## Capital programme 2015/16

38. The council approved its general services capital programme for 2015/16 in February 2015. Actual spend on the general services capital programme amounted to £102.027m, which was 82.5% of the budgeted figure of £123.740m. In line with the council's Strategic Infrastructure Plan (SIP), this level of capital expenditure represents an increase of 76% on capital expenditure compared with £57.923m in 2014/15.

39. The council approved its housing capital programme for 2015/16 in December 2014. The actual spend of £35.037m was 1% under the agreed budget of £35.385m. The major areas of expenditure were structural works on multi-storey blocks, heating system replacements, and the modernisation programme.
40. Exhibit 3 shows how capital investment has increased in the last few years as the council continues to implement the priorities set out in its Strategic Infrastructure Plan by progressing projects such as the Aberdeen Western Peripheral Route, Third Don Crossing, Art Gallery Redevelopment and Brimmond School.

## Exhibit 3: Capital Investment



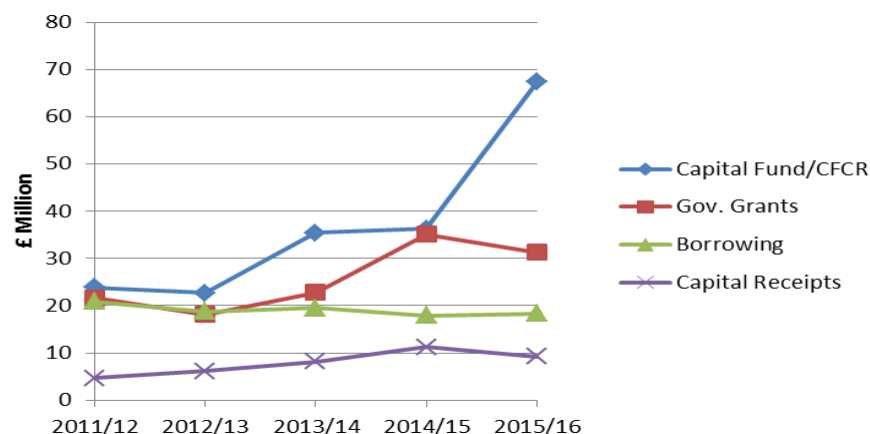
Source: Aberdeen City Council Annual Accounts

41. We reviewed how the council manages major capital projects and our findings are set out at paragraph 162 to 166 below.



42. The trend in sources of funding for capital expenditure is reflected in Exhibit 4. This shows that whilst other forms of financing have remained broadly similar compared to 2014/15, there has been a significant increase in internal financing from the councils Capital Fund (£32.0m, increase of £16.8m or 110.5%) and Capital from Current Revenue (CFCR) (£35.5m, increase of £14.5m or 69.0%). This is in line with the council's Treasury Management Strategy for 2015/16, which planned to use internally generated funds to support the Strategic Infrastructure Plan.

**Exhibit 4: Sources of Finance for Capital Expenditure 2011/12 – 2015/16**



Source: Aberdeen City Council Annual Accounts

## Financial management arrangements

43. 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.
44. 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.
45. We reviewed the council's standing orders, financial regulations, and scheme of delegation and concluded that they are were comprehensive and up to date. The council is currently undertaking a Governance Review (refer paragraph 101), which includes a refresh of these documents to ensure they continue to support implementation of the refreshed Strategic Business Plan.

46. Council-wide financial monitoring reports (both revenue and capital) 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. Reports are comprehensive and well laid out.

### Shared Section 95 Officer Arrangement

47. 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.
48. As set out in the Business Case, the objective of the arrangement was 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 advice, guidance and front line service delivery to the internal and external customers of both local authorities.'
49. 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'.

50. The arrangement commenced with the Head of Finance and Corporate Accounting Manager sharing responsibilities. To ensure a comprehensive service was provided to both councils, the Corporate Accounting Manager assumed a greater role in Shetland but still under the oversight of the Head of Finance.
51. At the Finance, Policy & Resources committee meeting in December 2015, it was agreed that the shared service would continue until the 31 March 2016 but that Shetland intended to appoint its own s95 officer at that point. Both councils felt that the arrangement has been beneficial, not only in financial terms, but also in respect of the experience gained by the staff involved. A total of £70,000 was recovered by Aberdeen from Shetland Islands Council to meet the additional costs from the arrangement.
52. The shared s.95 agreement was not renewed for 2016/17, as a result of the Corporate Accounting Manager being appointed Section 95 Officer at Shetland Islands Council.

### Conclusion on financial management

53. We have concluded that the council's financial management arrangements are satisfactory. Over the last number of years, the council has delivered a small surplus against budget which had been used to build up reserves. This year we have seen the council use the reserves it has built up to fund a significant level of capital investment. Sound financial management in this, and previous years, means the council has not been reliant on borrowing to fund its Strategic Infrastructure Plan.

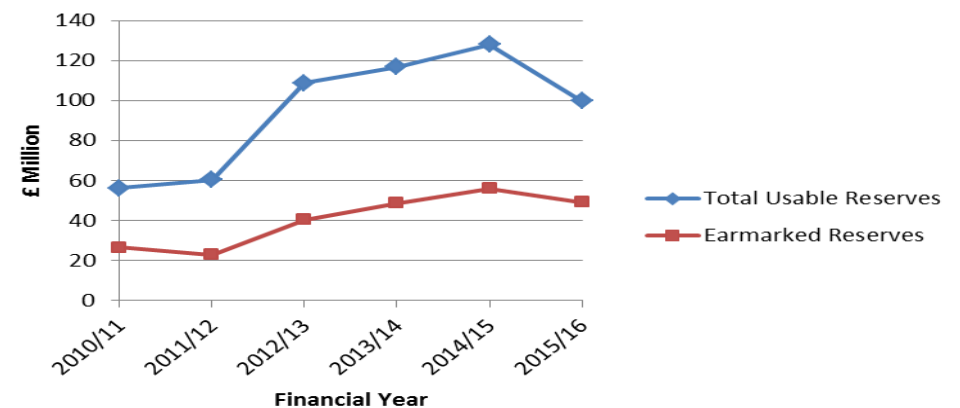
## Financial sustainability

54. 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 the current and future needs of its communities.
55. 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.
56. Effective long-term financial planning, asset management and workforce planning are crucial to sustainability.

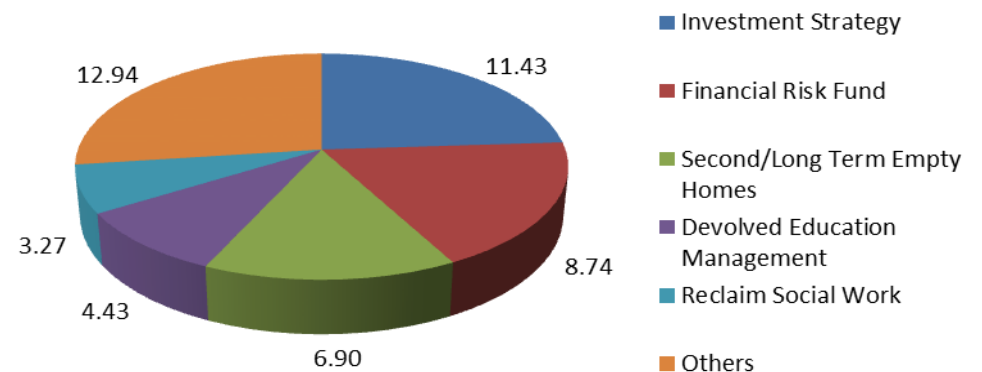
### Reserves

57. The overall level of usable reserves held by the council at 31 March 2016 decreased by £28.022m compared to 2014/15 and totalled £100.004m. This decrease is attributable to the use of the Capital Fund to finance capital expenditure and use of earmarked reserves as described in paragraph 42. As shown in Exhibit 5, the total level of usable reserves had been increasing over the previous 3 years and these are now being used to support the Strategic Infrastructure Programme. The General Fund balance includes £11.291m of unallocated general fund reserves.

**Exhibit 5: Usable reserves and earmarked balances**



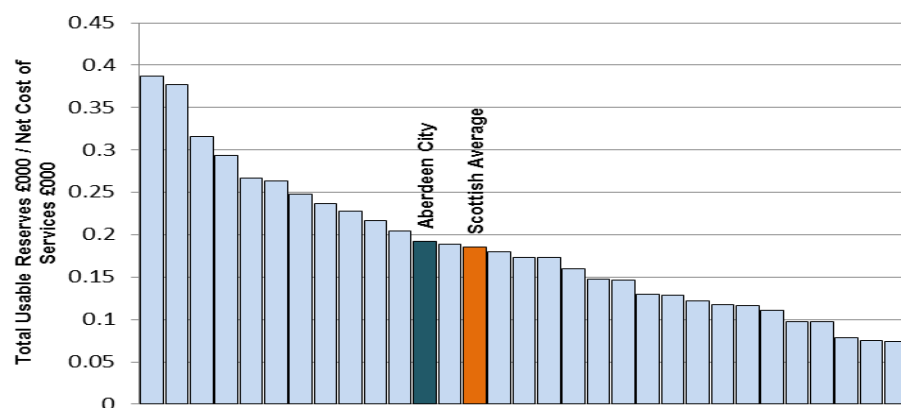
**Earmarked Balances - £m**



Source: Aberdeen City Council 2015/16 financial statements

58. Exhibit 6 presents the council's usable reserves position in relation to the net cost of services for the year in comparison to other Scottish councils. This demonstrates that the council's level of usable reserves is slightly above the average for Scotland.

### Exhibit 6: Total Usable Reserves as proportion of Net Cost of Services



Source: Scottish councils' unaudited accounts 2015/16 (excluding Orkney and Shetland Islands councils)

59. 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.

### Financial planning

60. For 2015/16, the council approved a balanced budget, without having to identify savings options or use reserves. At that time, a cumulative shortfall of £52.613m was predicted by 31 March 2020 on the basis that the council did nothing and accepted estimated future cost pressures. During the year, the council has therefore been developing plans to address the forecast future shortfalls including transformation, outcome budgeting and income maximisation.
61. Further impacting on this position was the Scottish Government funding settlement announcement in December 2015. This covered one year only and in respect of the council, there was a decrease in funding of £10.3m which equates to 3.5%. The settlement included conditions regarding a continued freeze in council tax levels, maintenance of pupil teacher ratios and ensuring all social care workers, including those in the independent and third sectors are paid the Living Wage. This provided additional challenges in preparing a balanced budget for 2016/17 and limited the opportunity to prepare 3-5 year budgets.
62. The council approved its 2016/17 budget on 25 February 2016. Officers prepared a list of potential savings areas amounting to £5.9m, from which members agreed savings of £2.4m to achieve a balanced budget for the year. Key savings included the removal of the secondary teaching staff formulae (£0.4m) and reductions in council funding to two arms-length external organisations, Bon Accord Care (£0.7m) and Sport Aberdeen (£0.4m).

63. As a result of the lack of a future funding settlement from the Scottish Government, the council, in common with other councils, only approved a one year budget in February 2016. At the time of agreeing the budget it was expected that indicative figures for future years would be available after the Scottish Government's Comprehensive Spending Review was completed, probably in Autumn 2016 and thereafter, the council committed to preparing a revised 5 year budget.
64. Following a review of assumptions, the council's latest medium term financial targets indicate a forecast shortfall ranging from £20m in year 1 to £35m in year 5. A report to the council's CMT in May 2016 set out the overall approach for developing a budget for 2017/18 and agreed to commence two projects which will support the development of budgets for 2017/18 and in future, an activity analysis to review staff activity with the aim of ensuring that this is focused on priorities, and an income review looking at income generation both in terms of fees and charges and commercial opportunities.

### Long term financial planning

65. Long term planning is essential to ensure that future levels of planned capital investment are affordable to the council. In our 2014/15 Annual Audit Report, we commented on the council's initial work in developing a long term financial strategy by setting out the economic and social factors affecting the public sector up to 2050.
66. Now that a range of projects from the SIP are being progressed, several have long term financial implications for the council. There

are also agreed five year Housing and Non Housing capital budgets for the period 2016/17 – 2020/21 involving another £566m of investment. In addition, two further plans involving significant regeneration for the city were agreed during the year which will require significant capital investment. The City Centre Masterplan is a 25 year programme to regenerate the city centre while a City Region Deal has been concluded with the UK and Scottish governments to support investment in a number of projects across North East Scotland. We comment further on these plans in the following section.

67. In recognition of the need for a longer term investment strategy, the council has recently developed a financial model covering the period up to 2056. This reflects known current commitments and borrowing requirements. It is also intended to provide forecast future income and expenditure levels and cash flows. In addition, there is scope to build in 'what if' scenario planning so that the model can accommodate unknown future economic and social factors.

### Workforce Management

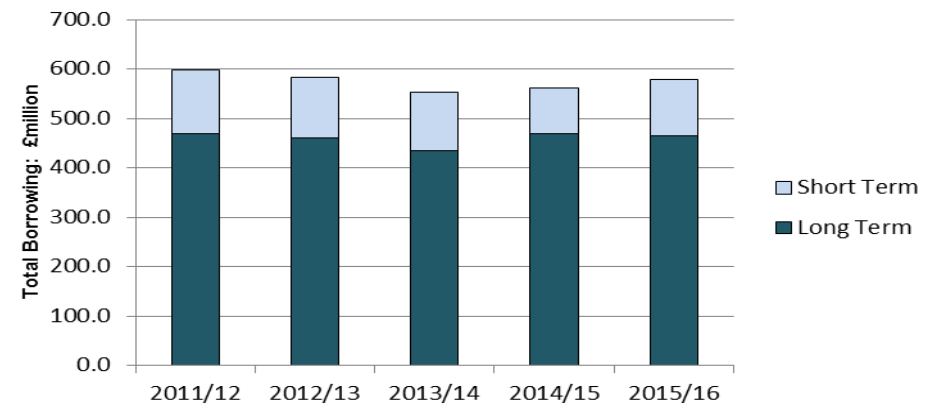
68. In November 2013, the Accounts Commission and Auditor General published a report on Scotland's public sector workforce. The report highlighted a number of key messages on workforce changes across Scotland and made a number of recommendations to the Scottish Government, central government bodies, the NHS, COSLA and local authorities. A national follow up exercise was carried out during 2015/16 to determine the extent to which public bodies are implementing previous recommendations.

69. In addition to this, the Best Value audit of Aberdeen City Council published in July 2015 noted as an area for improvement that the council should consider the capacity and capability required to deliver the strategic priorities against the recruitment challenges experienced in the North East.
70. We commented on our follow up findings in our Interim Report in June 2016. We found that a Strategic Workforce Plan for 2016/17 has been developed which provides a summary of the key actions and strategies to meet future workforce requirements. While each directorate is required to prepare a workforce strategy, workforce issues have been included in service level business plans (not directorate level), rather than a separate workforce document.
71. One of the council's key actions for 2015/16 has been developing succession plans for key occupational groups within the workforce and hard-to-fill business critical posts. Information was gathered to identify the likely numbers required in each service over the next 5 years. From this, the council will identify how overall strategies, such as 'Aberdeen Guarantees', Modern Apprenticeships and Graduate Support Scheme, can be applied to each hard to fill, business critical post. The council will also use the findings to identify skills and knowledge gaps that could be filled taking the current downturn in the oil and gas sector into consideration.
72. If the information that has been collected is used to develop comprehensive plans for succession planning then the council would be well placed to address all the recommendations contained in the national report

## Treasury Management

73. At 31 March 2016 total borrowing increased from £562.3m in 2014/15 to £578.1m. Of this total, long term borrowing stood at £464.751m, a slight decrease of £4.870m on 2015. During the same period, short term borrowing increased from £92.658m to £113.348m. This is in line with the council's Treasury Management Strategy for 2015/16, which was to make use of internally generated funds before using long term borrowing facilities. Exhibit 7 shows the council's borrowing position for the last five years which is focused at reducing debt.

**Exhibit 7: Total Borrowing 2011/12 – 2015/16**



Source: Aberdeen City Council Annual Accounts

74. Of the total long term borrowing of £464.751m at 31 March 2016, £93.893m (20%) related to 'Lender Option Borrower Option' (LOBO) loans. These are loans where there is an option that allows the

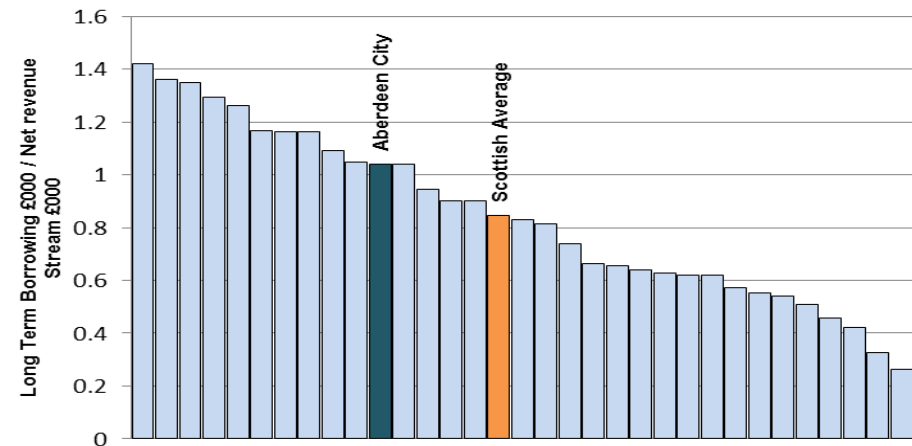
lender to increase the interest charge at specified dates, and the borrower has an option to repay the loan or accept the increased rate. The council has confirmed that one lender, with loans to value of £40m has since confirmed that they will not be taking up the option to increase the interest rate.

75. Analysing long term borrowing as a proportion of net revenue stream gives an indication of the relative indebtedness of the council. Exhibit 8 shows long term borrowing as at 31 March 2016 as a proportion of net revenue stream for all councils in Scotland. This shows that Aberdeen is among the councils at the higher end of the scale when borrowing as a proportion of net funding stream is compared.

## Asset Management

76. A Corporate Asset Management Plan was last approved as part of the non-housing capital budget for 2014/15 in 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.

### Exhibit 8: Scottish councils' long term borrowing as a proportion of net revenue streams



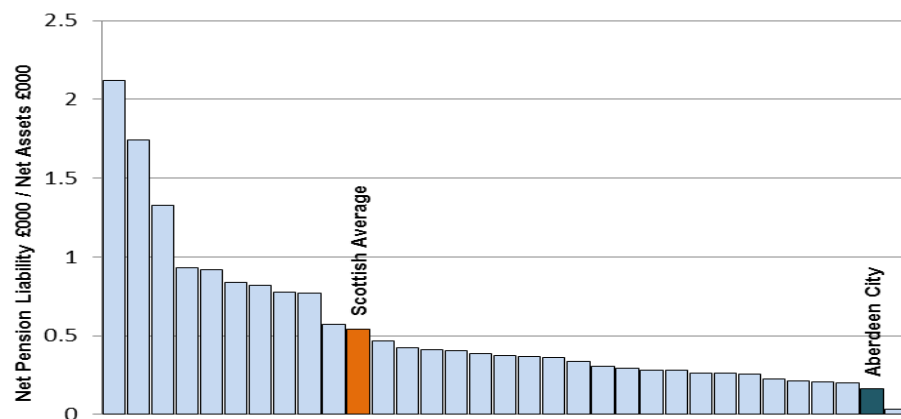
Source: Scottish councils' unaudited accounts 2015/16

## Pension liability

77. During the year, the council's pension liability decreased by £38.037m to £251.118m. This movement is attributable to an increase in the discount rate used by the scheme actuaries. The pension liability represents the difference between the expected future pension payments and the underlying value of pension fund assets available to meet this cost. Exhibit 9 shows that the pension liability is amongst the lowest in Scotland when compared to Net Assets.



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



Source: Scottish councils' unaudited accounts 2015/16

## Conclusion on financial sustainability

78. The council has considerable reserves and has contained its expenditure within annual budgets. The council is currently developing its next 5 year budget and acknowledged the need for longer term planning by developing a financial model covering 2016 to 2056. Overall we conclude that the financial position is currently sustainable and in the foreseeable future, 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

79. Councils face increasingly difficult challenges. In the context of overall reductions in public sector budgets, councils' revenue funding from the Scottish Government will reduce by five per cent in 2016/17, bringing the real terms reduction in revenue funding since 2010/11 to 11 per cent.<sup>1</sup> Despite this, 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.

80. In common with other councils, Aberdeen City Council is reporting gaps between income and the cost of providing services over the next few years. With further funding reductions expected, councils face tough decisions if they are to balance their budgets. These decisions must be based on a clear understanding of the current financial position and the longer-term implications of decisions on services and finances.

## Capital Investment

81. Through its SIP and City Centre Masterplan, the council is taking forward a number of significant developments. These plans have recently been enhanced with the agreement of a City Region Deal

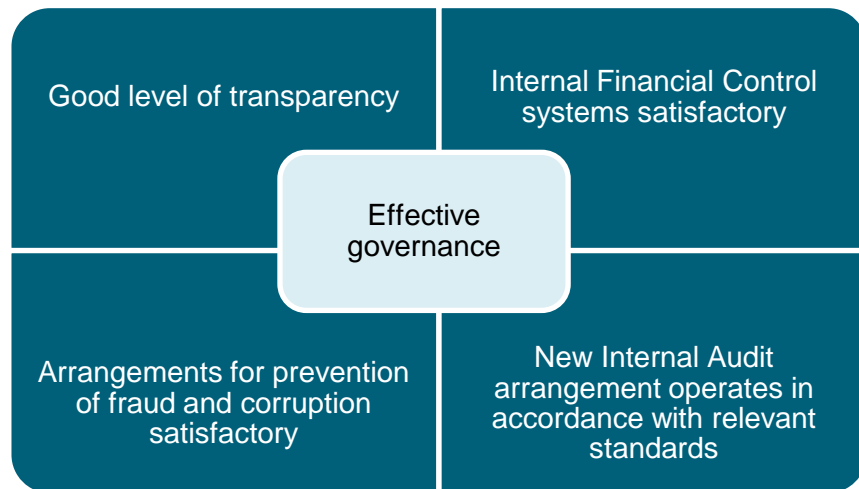
<sup>1</sup> Per - <http://www.audit-scotland.gov.uk/report/an-overview-of-local-government-in-scotland-2016>



with Aberdeenshire Council. Some of the most significant upcoming projects include:

- construction has begun on a £300m development of a new site for Aberdeen Exhibition and Conference Centre (AECC). The council approved a preferred funding mechanism in May 2016, and negotiations are currently underway with external funders.
- development of a joint project with Aberdeenshire Council and The Moray Council to construct a new Energy from Waste (EfW) facility serving all three councils. This project is key to supporting the Zero Waste strategy for the councils, and offers the future opportunity to alleviate fuel poverty within areas of Aberdeen. The council's contribution to the project is budgeted at around £64m.
- the council and hub North Scotland have concluded a £47m finance deal for the design and build of a new south of the city academy. Construction has begun and is expected to be completed in June 2018.

# Governance and transparency

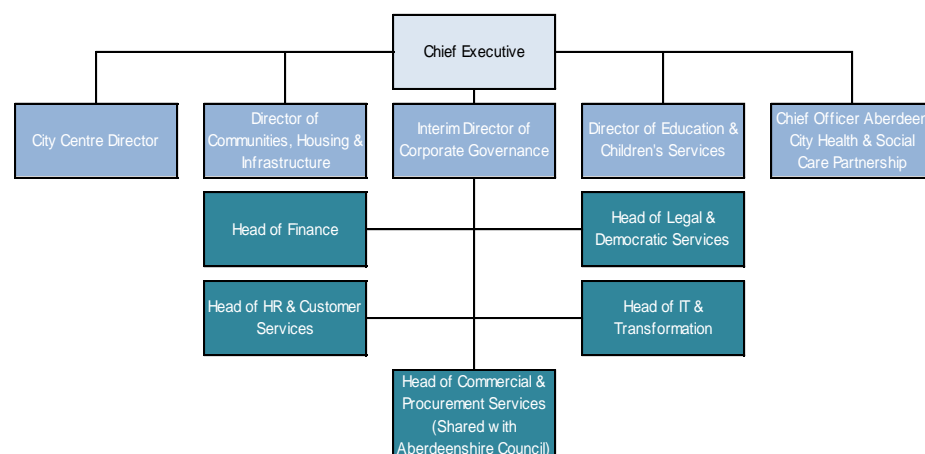


- 82. Members and management of the council are responsible for establishing arrangements to ensure that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and for monitoring the adequacy and effectiveness of these arrangements.
- 83. Citizens 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

## Corporate governance

- 84. An Interim Director of Corporate Governance was appointed in autumn 2015 who has led on many of the improvements being considered as part of the Best Value follow up activity. In addition, he is one of the sponsors for the council's governance review which was launched in 2015.
- 85. This post has been difficult to fill on a permanent basis. In June 2016, the council therefore agreed to re-designate this Director post in the council's management structure (set out in Exhibit 10) to Depute Chief Executive. The aim is to attract a wider pool of candidates when recruiting for the post in future.
- 86. 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. Within Legal and Democratic Services, two service managers support the head of service and both left the council in autumn 2015. This opened the way for the new head of service to restructure his team to meet the needs of the council.
- 87. Following the departure of the council's Head of Education, the opportunity was taken in December 2015, to enter into a joint working arrangement with Aberdeenshire Council to share the post. The arrangement was extended by a further 6 months in June 2016.
- 88. A City Centre Director was appointed to deliver the City Centre Master Plan.

## Exhibit 10: Senior Management Structure, Council and Corporate Governance



Source: Aberdeen City Council

## Political Leadership

89. During the year, there was evidence of cross party consensus on strategic decisions and more mature working relationships were observed. For example, agreement on the City Centre Master Plan and the funding strategy to support the council's capital programme. Group leaders continued to meet each council cycle providing the opportunity for sharing information on strategic priorities such as the City Region Deal and for building further consensus.
90. The economic downturn in the Oil and Gas sector and the continuing shortage of teachers in the North East are significant issues affecting the city and the wider North East Scotland region.

The council has provided effective political leadership in seeking to address these challenges.

91. The council hosted an Oil and Gas Summit in February 2015, which was attended by representatives of the UK and Scottish governments and local industry. A further roundtable discussion with key stakeholders was held in July 2016 to review/consider actions taken to sustain the oil and gas economy. A key conclusion from the summits was the need for infrastructure investment in the Aberdeen City region. Both governments expressed support for proposals by Aberdeen City and Aberdeenshire Councils to secure a City Region Deal.
92. The council also took the lead in bringing together 6 other councils from North Scotland to a 'Raising Attainment: Securing Teachers' summit held in October 2015. This brought together council leaders, directors of education and the Cabinet Secretary for Education and Lifelong Learning to identify actions to improve teacher recruitment.
93. There is senior councillor representation on a range of recently formed boards and working groups responsible for taking forward council priorities. Governance frameworks have recently been put in place to support the City Region Deal and the City Centre MasterPlan with administration and opposition party representation. In addition, a reference group has been established to ensure there is elected member involvement in each stage of the wide reaching governance review currently being undertaken.

94. The Aberdeen City health and social care Integrated Joint Board (IJB) was formally established in February 2016 but has worked well as a shadow board for some time and developed sound governance structures and processes. The capability and capacity of the board, including senior councillors and NHS board members working together, benefitted from support over the past year from the Good Governance Institute.
95. The council has also had highly sensitive cases to deal with, most notably, the tragic death of a teenager at Cults Academy and the outcome of an investigation at the crematorium. In both cases, independent reviews were commissioned and findings are expected shortly.

## Scrutiny

96. In May 2015, the convenor of the Audit, Risk and Scrutiny Committee resigned following his election as an MP. A new leader of the opposition was chosen and also became the new convenor of the committee. In April 2016, she resigned as leader of the opposition and stood down as convenor but remains a member of the committee. The new leader of the opposition took the convenorship in April 2016, having previously served as a member of the committee for around a year.
97. The committee approved its Annual Report in June 2016 which was subsequently presented to the full council in August 2016. It included a summary of activity and outcomes including self-evaluation and areas for focus in 2016/17. The report also highlighted the training delivered to new members which covered for

example, the annual accounts process, internal audit and risk management.

98. We have reviewed the operation of the committee more generally and found that it meets CIPFA Audit Committee Principles. In line with good practice, there was an improved level of scrutiny during the year, annual self-evaluation by the committee of its operation and more self-reflection through short wash up sessions on conclusion of formal committee business.
99. The remit of the committee sets out that it will 'consider and approve the council's Annual Accounts'. The unaudited Annual Accounts were presented to the committee on 27 June 2016 with a covering report from officers setting out expectations regarding scrutiny and approval of the council's accounts including the charitable trusts, and the annual governance statement. The report also included an appendix containing Audit Scotland's guidance 'Why the Accounts Matter'. However, there was limited scrutiny of the accounts or the governance statement by the committee. This may be a consequence of the 2015/16 budget outturn monitoring report having been considered by the Finance, Policy and Resources Committee prior to the audit committee and with some common membership across committees, there was perhaps already a familiarity with some of the content.

## Local code of corporate governance

**100.** The council has adopted a local code of corporate governance which reflects the 6 key principles 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 are included in its Annual Governance Statement. We reviewed the statement and found it to be an accurate reflection of the council's arrangements.

## Governance Review

**101.** CIPFA/SOLACE introduced revised principles in response to the increasingly complex environments within which local authorities operate. This includes addressing serious financial challenges, increased incidence of/requirement for arms-length operations, and the impact of these on ways of working. In addition to this, legislative drivers such as health and social care integration and community empowerment, mean that local authorities need to manage their external relationships more carefully than ever before.

**102.** The revised principles became effective from April 2016 and the Annual Governance Statement in June 2017 is required to demonstrate the extent to which the council's governance aligns with these principles.

**103.** The council has already commenced a Governance Review of its local framework against this backdrop. Other objectives include ensuring the framework supports the achievement of the council's objectives and that it responds to the findings of the Best Value

## Exhibit 11: Governance Review: Outputs

- Reviewed and revised risk and performance management frameworks
- Reviewed and revised elected member development approach
- Public participation and engagement strategy
- Corporate Policies Framework
- Refreshed Local Code of Corporate Governance reflecting the seven CIPFA/SOLACE principles published in April 2016.
- An Aberdeen City Council Constitution, comprising the Council's constitutional documents, including:
  - Member / Officer Protocol
  - Standing Orders
  - Committee Reporting Procedures
  - Committee Orders of Reference and Reporting Relationships
  - Aberdeen City and Aberdeenshire Procurement Regulations
  - Scheme of Delegation, including Proper and Statutory Officers
  - Arms-length governance arrangements
  - Member and officer guidance on gifts, hospitality and registering interests
  - Financial Regulations
  - Following the Public Pound Guidance

*Source: Governance Review – Report to Council, May 2016*

report. The review is led by the Head of Legal and Democratic Services under the sponsorship of the Interim Director of Corporate Governance. Exhibit 11 sets out the agreed outputs from the review.

- 104.** It is intended that the review will be completed and considered by council by 31 March 2017 in order that an improved and agreed framework is in place for the new council after the election in May 2017.

## Strategic Planning

- 105.** The audit of Best Value of Aberdeen City Council reported in July 2015 that the council should review how the political priorities of Aberdeen: the Smarter City, the Strategic Infrastructure Plan (SIP), the City Region Deal and the City Centre Masterplan are linked through to service plans. We reviewed developments in this area throughout 2015/16 and reported in our Interim report of June 2016.
- 106.** We found that a refresh to the Strategic Business Plan was approved by the Council in February 2016 as part of the 2016/17 budget setting process. This brings together strategic planning and the 'Shaping Aberdeen' organisational plan for the delivery of the council's vision, resource planning and decision making. Directorate Business Plans for each of the council's 3 directorates were also made available to members at this time. Subsequent to this, Service Business Plans were developed and all were reported to the appropriate committees by June 2016.

- 107.** We reviewed the directorate plans and a sample of service plans and found that a consistent 'golden thread' was identifiable from Aberdeen: The Smarter City, 'Shaping Aberdeen', through the Strategic Business Plan and personal objectives. A common set of core objectives was introduced for all managers aligned to the aims within 'Shaping Aberdeen'.

## Internal control

- 108.** 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.
- 109.** We reported our findings to the Audit, Risk and Scrutiny Committee in June 2016. 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.
- 110.** Over the past year, many organisations have experienced disruption to their IT systems due to "cyber-attacks" from the internet. We reviewed the council's arrangements for managing cyber-attacks and in general found well designed security controls and processes.

## Internal audit

### New Arrangements

- 111.** From 1 April 2015, the council entered into an agreement with Aberdeenshire Council for the provision of a shared internal audit service. This arrangement was expected to deliver savings of up to £217,000 per annum in comparison to the previous contract for internal audit services. It is planned to develop rolling 3 year plans for each council, linking these as far as possible to improve efficiency and share best practice.
- 112.** The Internal Audit Plan 2015/16, approved by the Audit, Risk and Scrutiny Committee (ARSC) in February 2015, was based on a strategic risk assessment with the following periodic assurance over key financial systems:
- aspects of procurement, payroll and income collection - annual basis
  - budget setting and monitoring, across all services on a rolling basis throughout a three year period
  - key financial and business systems (financial ledger, council tax, business rates, payroll, receivables, payables, housing rents) - once over the three year period.
- 113.** Progress reports against the agreed plan were presented to each meeting of ARSC. Slippage was highlighted in the first progress report in September 2015 and continued to be a regular feature throughout the year. There were a combination of issues including time taken to gain access and familiarisation with council systems, a number of unscheduled investigations and staffing matters.
- 114.** The final 2015/16 progress report identified that eight reviews (25% of total planned) were either cancelled or carried into the 2016/17 plan. We met with officers and agreed which reviews should be prioritised in order to provide the necessary assurances for the financial statements process.
- 115.** The Chief Internal Auditor provided his opinion on the council's internal control system for 2015/16. The associated Internal Financial Control Statement 2015/16 was presented to the ARSC in June 2016, and the Chief Internal Auditor concluded that, in his opinion, 'reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control system in the year to 31 March 2016'.
- 116.** The 2014 Regulations require councils to assess the efficiency and effectiveness of the internal audit service from time to time. The outcome of this review should be considered as part of the system of internal controls by the committee charged with governance (in this case the Audit, Risk and Scrutiny Committee) and arrangements are in place for this review to be concluded within the required timescales.

### Reliance on Internal Audit

- 117.** 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 2015/16 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. We placed formal reliance on internal audit's Creditors and Council Tax reviews to support our audit opinion on the financial statements.

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

- 118.** A revised Policy and Strategic Response to Fraud, Bribery and Corruption was approved by the council in September 2015. We reviewed the revised policy and confirmed that it provides good guidance to officers on definitions of fraud, bribery and corruption and how any suspected issues should be raised. We concluded that the arrangements in place were satisfactory and we are not aware of any specific issues that we need to record in this report.
- 119.** The council created a Corporate Investigation Team (CIT) in April 2015. During the year the CIT established working practices and prioritised investigations on a reactive basis. A Fraud Annual Report was prepared by the CIT and presented to the ARSC in April 2016. This provided a summary of the work of the CIT during the year and was the first to be presented during our five year appointment. The report also contained a very good level of detail for member scrutiny and set out a number of actions to improve fraud arrangements going forward.

- 120.** The CIT's business plan for 2016/17 was approved by the ARSC in June 2016 and sets out a more structured approach to work planning for the team.
- 121.** In our Interim Report of 2012/13, we made recommendations that risk assessments undertaken in response to the requirements of the Bribery Act should be evaluated and addressed as appropriate. This action was originally to be completed by August 2013 but was revised to 30 September 2016 following the establishment of the CIT. Due to the limited resources in the team, this work was delayed due to other tasks taking priority.
- 122.** A Whistleblowing Annual Report was also presented to the ARSC in June 2016 for the first time.

## National Fraud Initiative in Scotland

- 123.** The National Fraud Initiative (NFI) in Scotland brings together data from councils, police boards, fire and rescue boards, health bodies and other agencies, to help identify and prevent a wide range of frauds against the public sector. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. If fraud or overpayments are not identified in a body, and the NFI exercise has been undertaken properly, assurances may be taken around the effectiveness of the internal arrangements for preventing and detecting fraud.



- 124.** In our 2014/15 annual audit report we noted that limited progress had been made with the exercise due to the key contact responsibility transferring to the Corporate Investigations Manager and other priorities taking precedence such as the transfer of benefit fraud cases to the Single Fraud Investigation Service. This position had not significantly changed in February 2016, when we reported that the level of matches processed had increased from 5% (in 2014/15) to 22%. By 31 March 2016, this had increased to 32%.
- 125.** In April 2016, ARSC considered the Fraud Annual Report which stated that the level of engagement with the exercise would significantly improve over the subsequent 6 months to September 2016. While there was some movement, the planned progress over the six months did not emerge and the latest position was 35% matches processed as at August 2016.
- 126.** Outcomes for the 2014/15 NFI exercise show that the council had identified 59 errors with a value of £97,746. More positively, a large amount of progress was made in a separate matching exercise between the electoral register and council tax single person discount (66.7%).
- 127.** Past experience has tended to demonstrate that to be effective, matches need to be dealt with promptly otherwise the data loses its currency. The limited progress made with the main exercise since March 2016 could therefore be due to the length of time which has elapsed in the nineteen month period since the matches were issued. However, the Audit Scotland NFI national report issued in June 2016 highlights that 20 percent of the outcomes from the

previous NFI exercise occurred in the March of the year after the matches were issued. This means that, should this trend continue, between £2.9million and £6.3million could still be identified from the overall 2014/15 exercise across Scotland.

- 128.** As key contact, the CIT should have sufficient standing and independence within the council structure to progress the review of matches and therefore it is important that senior management demonstrate their commitment and support for NFI across the organisation.

## Governance of ALEOs

- 129.** In June 2015, the council implemented a framework of Governance Hubs for its significant ALEOs – Bon Accord Care (BAC), Aberdeen Sports Village (ASV), Sport Aberdeen (SA) and Aberdeen Exhibition and Conference Centre (AECC) – to provide assurance around their governance arrangements. This was extended to ‘tier 2’ ALEOs – Aberdeen Heat & Power, Aberdeen Performing Arts and Garthdee Alpine Sports, in May 2016. 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.
- 130.** In March 2015, the Accounts Commission took the opportunity to remind councils of its ongoing interest in ensuring that councils are able to hold ALEOs to account and the Controller of Audit set out his

expectation that auditors would regularly comment on councils' arrangements for, and compliance with, their statutory obligations for 'Following the Public Pound'.

- 131.** The Accounts Commission's report on the audit of Best Value of Aberdeen City Council in July 2015 noted that the council 'needs to progress its plans to put in place systematic monitoring of its ALEOs'.
- 132.** We reviewed the operation of the council's ALEO Governance Hubs and reported in June 2016. A number of positive outcomes were identified and we made a number of recommendations to further strengthen the level of scrutiny provided. Exhibit 12 shows that total payments of £54.6m, equating to 6.87% of gross service expenditure were made to Aberdeen ALEOs during 2015/16. The scale of these payments emphasises the importance of having service level agreements in place against which ALEOs can be measured and monitored in terms of delivery of service.

**Refer Action Plan, Recommendation 1**

- 133.** Other recommendations related to the need for more robust scrutiny of service performance, updating the remits of the Hubs and providing a clear opinion on governance and service performance
- 134.** The action plan included in our interim report reflected the need for the governance hubs to consider the recommendations and confirm how these were to be addressed. During the August 2016 cycle of meetings, a revised action plan was developed. As part of the wider governance review discussed at paragraph 101 above, the Good

Governance Institute was commissioned to advise on the council's assurance framework, including a review of stakeholders which will include ALEOs. The council has also engaged CIPFA to review all aspects of governance, including third party governance which again will include ALEOs. The outcome of these reviews is expected in October 2016.

**Exhibit 12 – Total payments made to ALEOs 2015/16**

ALEO	Payments - £'000
Aberdeen Sports Village	1,546
AECC	1,329
Bon Accord Care/Support Services	33,574
Sport Aberdeen	9,264
Aberdeen Heat & Power	6,735
Aberdeen Performing Arts	1,890
Garthdee Alpine Sports	298
<b>Total</b>	<b>54,636</b>
Gross Service Expenditure	795,494
<b>ALEOs as % of Total</b>	<b>6.87%</b>

*Source: Aberdeen City Council – payments to related parties*

**Conclusion on Governance**

- 135.** We concluded that the council itself has effective governance arrangements and note the ongoing Governance Review to further strengthen these. Whilst the council has implemented the ALEO

Governance Hubs to scrutinise its wider group structure, this requires further development to ensure that they are able to provide assurance on governance and service performance. In addition, more could be done in response to the National Fraud Initiative.

## Transparency

- 136. From June 2015, all council meetings were web-cast live as part of a 12 month trial period, with recordings available online. Following completion of the trial, the council agreed to invite tenders for a five year webcasting service for council meetings and to extend webcasting to any committee meeting held in the council chamber.
- 137. Agenda items for all council meetings are posted on the council's website a week in advance. However, as was the case in 2014/15, we continued to note that additional agenda items are fairly regularly circulated after initial publication dates. This reduces the preparation time available for members and may impact on the level of scrutiny subsequently carried out. We refer to the availability of financial monitoring reports at paragraphs 46 and 165 and Public Performance Reporting is covered at paragraph 181.
- 138. A decision sheet is publicly available promptly after each meeting and minutes are available once agreed. Our review of minutes did not highlight that excessive numbers of items were held in private. Where items were in private, the reasons for doing so were clear.
- 139. The council introduced a Petitions Committee in September 2013 to enable individuals, community groups or other organisations to raise issues of concern with members. Of the first 9 scheduled meetings,

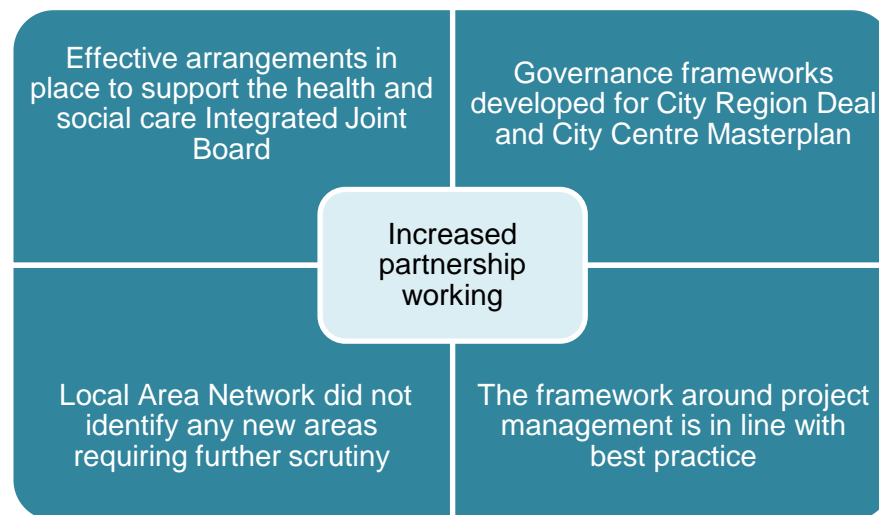
7 were cancelled due to a lack of any competent petition. Since September 2015 however, due to increasing awareness of the committee, all 5 scheduled meetings have been held.

- 140. Overall, we concluded that the council has a good level of transparency with regards to its decision making and reporting of financial performance.

## Outlook

- 141. Councils will continue to operate in a changing environment with financial constraints. Under these circumstances councils will be obliged to consider the delivery of services by different means. Good governance will be particularly important where council resources and service delivery are devolved to third party organisations.
- 142. 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 by third party organisations, it will be crucial that the council implements robust assurance and governance arrangements to deliver best value, while at the same time ensuring an appropriate level of accountability for the public pound.

# Governance and transparency – wider scope



- 143.** 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.

- 144.** In our Annual Audit Plan, presented to the ARSC on 9 March 2016, 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

- 145.** The Public Bodies (Joint Working) (Scotland) Act 2014 provides the framework for the integration of health and social care services in Scotland. The council and NHS Grampian agreed on an integrated joint board (IJB) model for Aberdeen.
- 146.** A shadow IJB operated from 1 April 2015 to oversee preparations prior to the 'going live' date of 1 April 2016 for the full IJB. An Integration Work Plan was developed and updated and discussed at each monthly meeting of the shadow IJB. The work plan set out the key actions and milestones required to develop the IJB.
- 147.** 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 a period of discussion, the scheme was approved by the Cabinet Secretary and Aberdeen City Integrated Joint Board was formally established on 6 February 2016. The voting membership of the IJB comprises of four members of the council, three from the administration and one from the opposition, and four health board members.

## Governance Arrangements

- 148.** The IJB is required to appoint a Chief Officer and Chief Financial Officer to oversee operation of the Health and Social Care Partnership. A chief officer, who is jointly accountable to both the council and NHS Grampian, has been in post since October 2014. A Chief Finance Officer was appointed in June 2016. For the period from 6 February 2016, the NHS Grampian Director of Finance filled the role on an interim basis. In addition to these posts, the IJB also appointed a Head of Operations from 1 April 2016.
- 149.** A summary of the statutory powers to be delegated by the Council and NHS to the IJB was presented to the full council in March 2016. At this meeting, the Council also agreed to receive an update report for members on matters relating to the IJB that the Chief Executive considered to be of interest at the Council meetings of in August and December 2016 and quarterly thereafter. These reports are to include financial monitoring information in relation to the IJB. The first such report, in August 2016, provided members with an overview of the arrangements in place for the governance of the IJB. This covered governance of the Board, Finance, Clinical Care, Procurement and Information. The report also provided details of Risk and Performance Management and Equalities. We would anticipate that in time, these reports will highlight both operational and financial performance to ensure that members have the assurance that services delivered by the IJB meet expectations.

## Financial Assurance

- 150.** In May 2015, the Scottish Government issued final guidance for Integration Financial Assurance at both pre- and post-integration stages. This set out the assurances required by audit committees within each of the partner bodies, and subsequently from the IJB when established. Prior to the introduction of the IJB, where practical, it was recommended that the ARSC 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.
- 151.** In March 2016, ARSC received a report from internal audit setting out findings in respect of the key assurance areas controlled and influenced by the council. Key findings included:
- draft integration scheme contained the key financial requirements as set out by the Scottish Government.
  - delivery of statutory requirements, such as financial regulations and risk management strategy, had been prioritised to ensure that these were in place by 1 April 2016. More detailed resource plans would not be complete by this date, and therefore Internal

Audit was of the opinion that limited assurance that resources would be available for delivery of the IJBs Strategic Plan.

- lessons were being learned from developing partnerships across Scotland via the Chief Officers Group and Finance Leads networks, best practice is being shared, and joint pan-Grampian work is in progress. However, a substantial element of trust is being placed on officers within the IJB and partners to work together towards the partners' assumed mutual aims.
  - whilst the shadow IJB has been provided with regular joint monitoring reports, at a high level, on expenditure against both NHS and Council budgets for 2015/16, and each partner has continued with its own budget monitoring arrangements, there has been no sharing beyond officers of the partners' management accounts.
152. The council's agreed contribution to the IJB for 2016/17 amounted to £86.6m. In April 2016, a report to ARSC set out the due diligence processes that have been applied to the creation of the consolidated Aberdeen City Health and Social Care Partnership budget for the 2016/17 financial year. This process was undertaken to ensure that the budget provided for the Partnership is sufficient, identifies current and historical pressures and demands and allows the Partnership to proceed on a sound financial basis.

## Conclusion

153. The IJB was established in February 2016 and became operational from April 2016. The council has transferred delegated powers to the IJB and a mechanism is in place for regular reporting of key issues, including financial monitoring information, to the council.
154. Whilst the due diligence process has provided assurance on the development of the budget, now the IJB is operational, robust budget monitoring is required and the council needs to be assured that ongoing expenditure is contained within budget and that there are no overspends requiring additional funding from the council.

## City Centre Masterplan

155. In June 2015 the council unanimously approved a City Centre Masterplan and Delivery Programme – a 25 year regeneration programme for the city centre which was developed following wide consultation with the public and stakeholders. The masterplan is an overall vision and framework for regeneration, individual projects which are developed in response to the masterplan will require to be agreed by the council as they progress.
156. A City Centre Masterplan Reference Group was established in August 2015 to provide a representative forum which ensures that citizens, communities and key stakeholders have direct influence on the ongoing development and delivery of the masterplan. The group is expected to play a key role in monitoring delivery of the masterplan and in particular whether delivery is effectively realising the vision and objectives. The group consists of political group



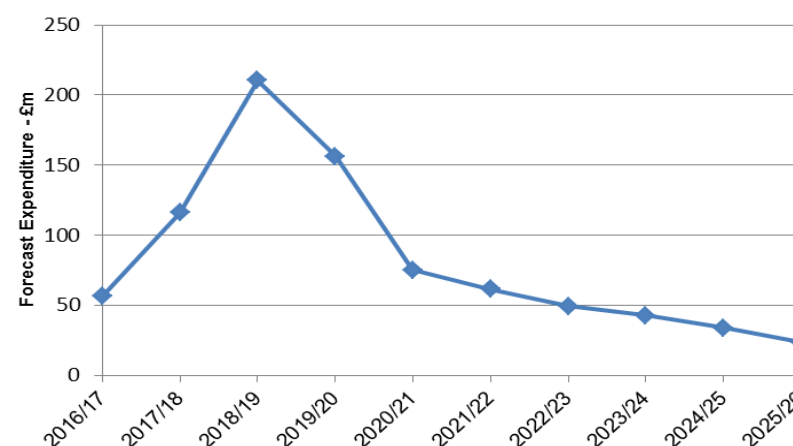
leaders and representatives from the community council forum, and the business, education and voluntary sectors.

## City Region Deal

- 157.** In January 2016, the UK and Scottish governments announced a £250m City Region Deal for Aberdeen City and Aberdeenshire councils. The deal will allow the councils to unlock financial support and powers from national government, giving them greater control over spending and decision making to deliver a long term improvement programme to provide further growth in the region.
- 158.** The Aberdeen City Region Deal Joint Committee (the Joint Committee) has been established to oversee implementation of the deal and make recommendations in respect of strategy and policy plans, prioritisation of plans, improvements to the way the deal is being implemented and the setting of budgets. The Joint Committee comprises of 3 members from each of Aberdeen City and Aberdeenshire Councils, and 3 representatives from Opportunity North East (ONE), a private sector led body focused on ensuring a sustainable economic future for north east Scotland. The Joint Committee met for the first time in February 2016 and has met regularly since. It is supported by a Programme Board which meets on a six week cycle.
- 159.** A City Region Deal Agreement, supported by more detailed Implementation Plan, Financial Plan and Assurance Framework was approved by the council in August 2016 and thereafter by other partners, Aberdeenshire Council, ONE, and the UK and Scottish

governments. The agreement sets out the six specific projects to be delivered as part of an overall £826m funding package. In addition to the £250m from the UK and Scottish Governments, the councils will contribute £20m, local universities £24m, with the balance of £532m to come from the private sector and other sources.

### Exhibit 13 – City Region Deal – Forecast Expenditure per year



Source: Report to Council August 2016

- 160.** As set out in the Financial Plan, funding from both Governments will be in the form of Capital funding to be released once business cases and implementation plans have been approved by both Governments. Business cases will also underpin the payment profile for funds paid across to projects. Financial monitoring reports will be reviewed by the Programme Board and approved by the Joint Committee, prior to issue to both Governments on a quarterly basis.

As per Exhibit 13 below, the majority of expenditure is forecast to take place in the period 2017/18 – 2019/20.

161. Alongside the City Region deal, the Scottish government announced a further investment of £254m for infrastructure projects to support the region. The council is currently in discussions with the Scottish Government over an agreement on this funding and whether it could be brought into the City Region Deal governance arrangements.

## Capital Investment

162. 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.
163. Based on a review of a sample of current capital projects, we reviewed progress against recommendations made in Audit Scotland's national performance audit report, *Major Capital Investment in Councils*, initially published in March 2013 (the 2013 report).
164. We found that the governance and project framework around the capital programme met many of the good practice criteria suggested by the 2013 report.
165. In terms of scrutiny, in our opinion there is scope for improved signposting of key messages especially where there are increased

risks or significant slippage. While lessons learnt reviews are carried out operationally, there is scope for the findings to be collated for members' scrutiny.

166. We reviewed the decision making process supporting a sample of capital projects including the existence of business cases and the tendering arrangements. No significant matters were identified. We would however suggest that financial models are kept under regular review and that there is a clear audit trail to evidence significant changes.

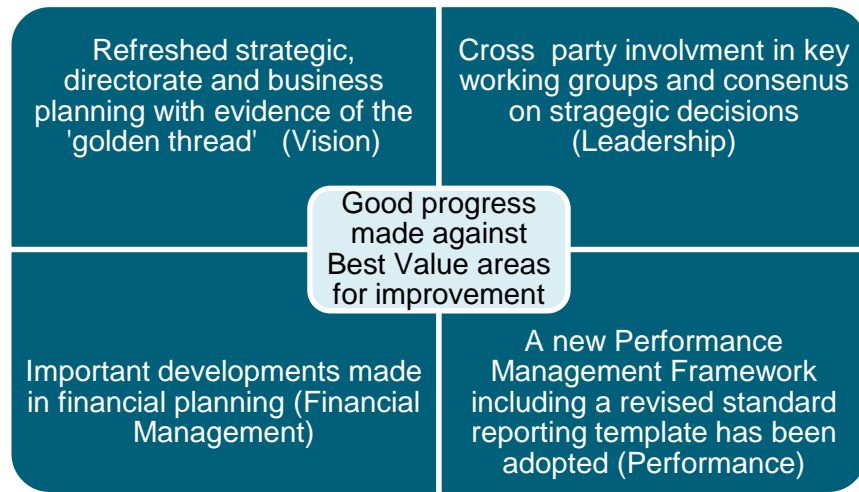
**Refer Action Plan, Recommendation 2**

## Local scrutiny plan

167. The 2016/17 Local Scrutiny Plan (LSP) prepared by the Local Area Network of scrutiny partners for the council was submitted to Aberdeen City Council in March 2016. The LAN did not identify any new risks which require scrutiny, however offender serious incident reviews and educational attainment were highlighted by scrutiny partners as areas of concern. The LAN concluded that additional scrutiny in these areas would not necessarily assist improvement but that continued oversight and monitoring by link inspectors/lead area officers was essential.



# Best Value



**168.** 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

**169.** In July 2015, the Accounts Commission published the findings from its audit of Best Value and Community Planning. These findings were largely positive and while progress in a number of areas was recognised, the Accounts Commission also considered that it was

too early to assess the effectiveness of much of the improvements put in place.

**170.** The Controller of Audit was therefore required 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. The council's progress in responding to the areas for improvement which are broadly set out below have been considered throughout the local audit and reflected in the content of this report.

- Vision and strategic direction
- Leadership and working relationships
- Performance management and scrutiny
- Financial management and improvement.

**171.** Overall, we concluded that the council has made good progress in each of the key areas identified for improvement. The council has refreshed its Strategic Business Plan and Directorate and Service plans show a 'golden thread' from this. A Performance Management Framework has been agreed. The first performance report in the new template was considered by elected members in June 2016 with plans in place for rollout to all committees from September 2016. The council is aware of the improvements required in public performance reporting and has an agreed action plan covering the next 12 to 18 months. The ALEO Governance Hubs are well established, but require further development to ensure they are well placed to provide assurances on governance and service performance.

## Performance management

**172.** The Best Value review of July 2015 made a number of specific recommendations to improve performance management at the council:

- Implement plans to refocus performance measurement on outcomes.
- Ensure clear links between the performance information submitted to members for scrutiny and the Council's strategic plans.

**173.** Following the refresh of strategic planning as discussed at paragraph 105, the council have developed a Performance Management Framework which brings together at a high level the overall purpose and principles and how performance management may look at different levels of the council and for different stakeholders, both internal and external.

**174.** In June 2016, the Finance, Policy and Resources Committee agreed to a revised standard template for reporting performance to committees. This is intended to ensure that members receive consistent information to enable them to discharge their scrutiny role effectively. All measures included in the template relate to policy priorities (Aberdeen: the Smarter city) or organisational priorities (Shaping Aberdeen). A summary dashboard of measures is supplemented by detailed analysis of "exceptional" performance and performance is contextualised with trend and benchmarking data along with a clear statement of why the measure is important for the delivery of council priorities.

**175.** As part of the 2016 strategic, directorate and service planning programme, Services have been reviewing their performance measures. This work is continuing and will see an increased focus on outcomes in performance reports to committee. As this work is completed, Committees will be asked to agree a revised set of performance measures which focus more on strategic priorities and outcomes than on the operational activity.

**176.** The revised reporting template was used for the Corporate Governance Directorate at the June 2016 meeting of the Finance, Policy and Resources Committee, and for the other directorates in the August/September committee meeting cycle.

**177.** In addition to these regular reports, it is recognised that some key performance information is only available annually – for example education attainment levels. The intention is that key annual performance data like this will be presented to committee when it is available as a separate report.

## Statutory performance indicators (SPIs)

**178.** The Accounts Commission places great emphasis on councils' responsibility for public performance reporting (PPR). The Commission does not prescribe how councils should report but expects councils to provide citizens with fair, balanced and engaging performance information reporting.

179. For 2015/16 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.

180. In our 2014/15 Annual Report, we noted that an evaluation of all Scottish councils' approaches to PPR was carried out by Audit Scotland and reported to the Accounts Commission in June 2015. The review found that the council was alone in the lowest quartile, complying with only 4 out of 18 themes reviewed.

181. In response, a PPR action plan was approved by ARSC in April 2016 and contains a number of actions in the short (6 months), medium (9 months) and long (12 months) term to:

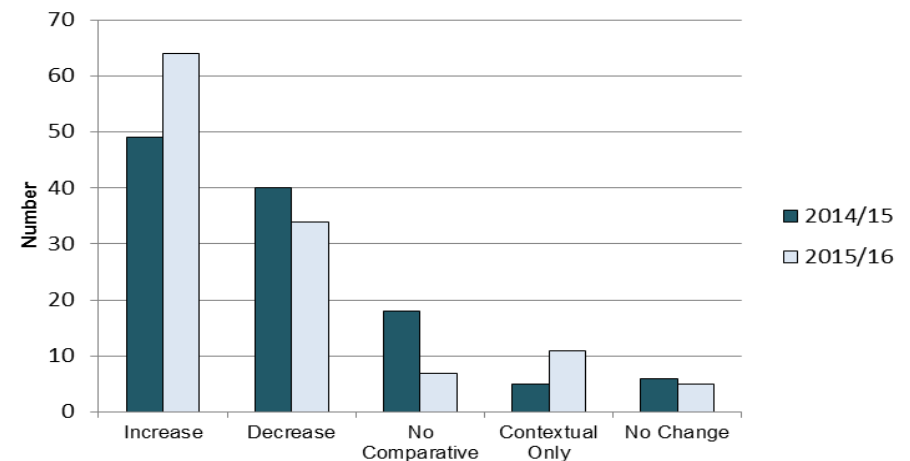
- improve engagement with the public
- develop a more comprehensive suite of measures
- ensure information is presented in a meaningful and understandable way
- provide a 'one stop shop' for performance information (Aberdeen Performs)
- embed principals of performance management within strategic objectives

**Refer Action Plan, Recommendation 3**

182. In the meantime, the council continues to publish performance information, including Statutory performance Information and a link to the Local Government Benchmarking Framework, in the 'Aberdeen Performs' section of the website.

183. The council has produced a total of 121 indicators covering SPI's 1 and 2 for 2015/16. A summary of the council's SPIs for 2015/16 compared with 2014/15 is set out in Exhibit 14 and shows that performance has been improving during the year.

**Exhibit 14 – Direction of Performance 2014/15 - 2015/16**



*Source: Audit analysis of council's SPIs*

**184.** The following list includes examples from the 64 indicators where performance has improved during the year:

- Percentage of complaints resolved within time – 65.78% (59.54% in 14/15)
- Average time taken in calendar days to process all new claims and change of events in Housing Benefit – 10 days (12.95 in 14/15)
- Percentage of decision notifications issued within 28 days of date of initial presentation where the council has a duty to secure permanent accommodation for the household – 83.9% (57.5% in 14/15)
- Average determination times of major development planning applications (weeks) – 24.1 (47.6 in 14/15)
- Percentage of eligible ante pre-school child population allocated part time nursery provision within council and partner provider settings – 84.4% (76.3% in 14/15)

**185.** Among the 34 indicators which showed a deterioration in performance from last year are:

- Percentage of council expenditure with local suppliers – 30.1% (34.9% in 14/15)
- Percentage of homecare clients aged 65+ receiving a service during evening/weekend – 25.8% (27.3% in 14/15)
- Percentage of partner provider early learning and childcare centres receiving positive Education Scotland reports per financial year – 50% (100% in 14/15)

- Percentage of all street light repairs completed within 7 days – 59.99% (67.24% in 14/15)
- Refuse complaints received per 1,000 households – 42.62 (25.34 in 14/15)

## National performance audit reports

**186.** Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2015/16, a number of reports were issued which are of direct interest to the council. These are outlined in [appendix II](#). The Audit, Risk and Scrutiny Committee receive regular reports on the council's response to all national performance audit reports.

## Outlook

**187.** In common with other councils, Aberdeen City Council faces challenges of reducing budgets, an aging population with higher levels of need and the public expectation of high quality services. Savings have been made in the past but as choices become increasingly difficult, councils will have to focus on making the best use of all available resources and to challenge existing ways of doing things. A strong and effective performance management framework will be critical to the success of the council achieving its key priorities and demonstrating 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
<p><b>Fair values</b></p> <p>The 2015 Code requires authorities to account for fair value measurement of assets and liabilities in accordance with IFRS 13. There is a risk that valuations are not carried out as per the requirements of the Code and therefore the value of assets and liabilities are misstated.</p>	<ul style="list-style-type: none"> <li>• Early planning meeting held with Head of Finance, his team and Estates Management staff to confirm understanding of requirement for Fair Value measurement and proposed actions to ensure these were available in accordance with the Annual Accounts timetable.</li> <li>• Review of balance sheet items to confirm that they had been valued in accordance with the code.</li> </ul>	<p>We have reviewed the basis of valuation for assets and liabilities included in the balance sheet and conformed that all were in accordance with IFRS 13.</p>
<p><b>Council dwellings revaluation</b></p> <p>Council dwellings are revalued every 5 years, the current basis of valuation is fair value, determined using the basis of existing use for social housing (EUV-SH). This is a significant undertaking, requiring a number of complex judgements and calculations. There is a risk that the value of council dwellings is materially misstated.</p>	<ul style="list-style-type: none"> <li>• Early planning meeting held with Head of Finance, his team and Estates Management staff to confirm process involved in revaluation.</li> <li>• Full substantive testing of revaluation calculations.</li> <li>• Review of experts employed by management in terms of ISA 500.</li> </ul>	<p>We reviewed the methodologies used by the council to determine the gross valuation and the adjustment required to reflect Social Housing.</p> <p>While we were satisfied with the overall methodology followed, a number of errors in the calculation of the total expected rent for the year were identified. The cumulative impact of these errors resulted in the valuation being overstated by £22.785m.</p>

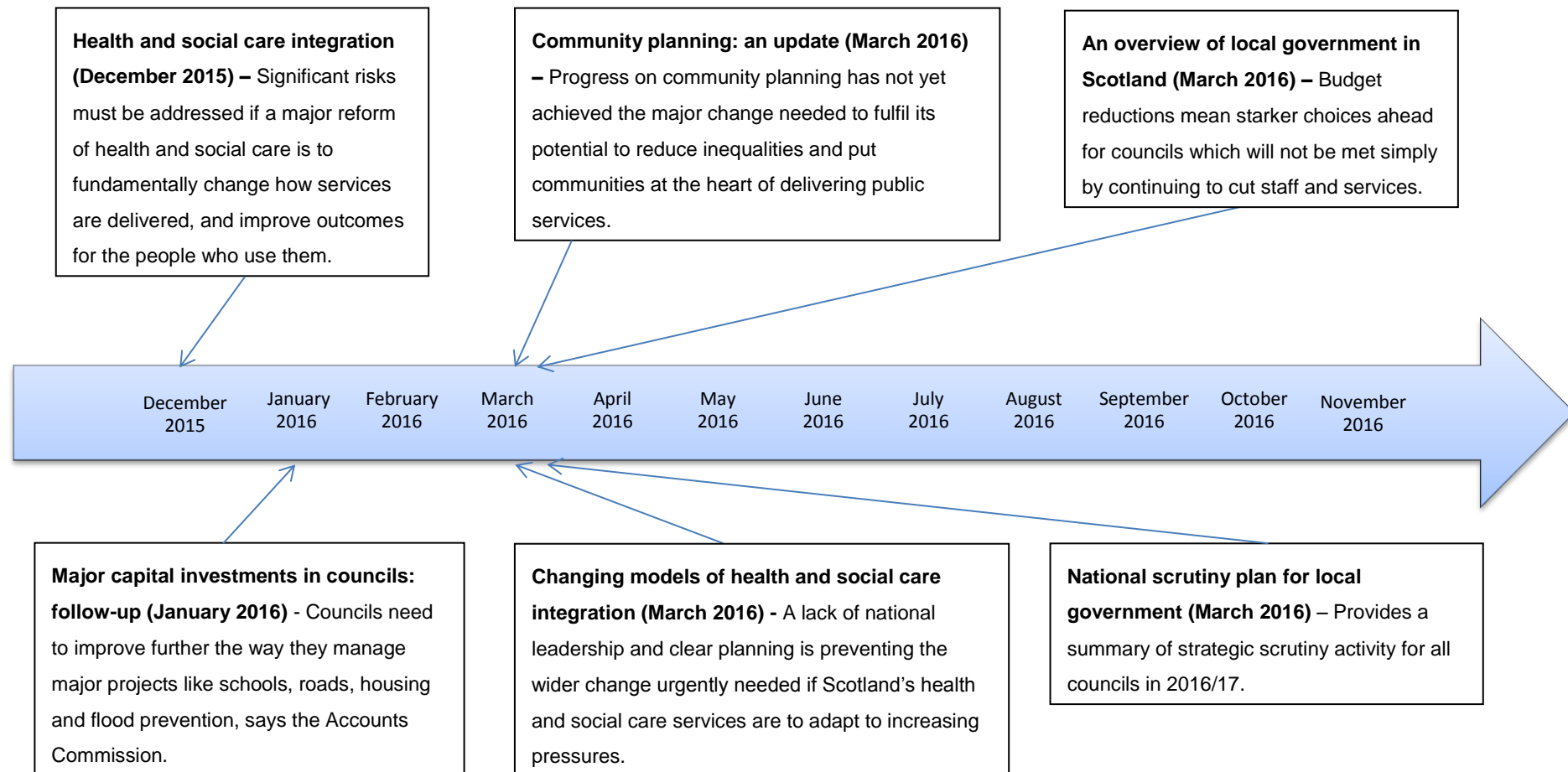
Audit Risk	Assurance procedure	Results and conclusions
<p><b>Highway assets</b></p> <p>The 2016/17 Code requires highways to be measured for the first time on a depreciated replacement cost basis from 1 April 2016. This is a major change in the valuation basis for highways and will require the availability 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 or that they will be materially misstated leading to a qualified opinion on the 2016/17 accounts.</p>	<ul style="list-style-type: none"> <li>• Ongoing discussions with finance and infrastructure officers.</li> </ul>	<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>
<p><b>Charities SORP (FRSSE)</b></p> <p>The new Statement of Recommended Practice for charities introduces a number of presentational and other changes to the annual accounts. There is a risk that the new requirements are not met.</p>	<ul style="list-style-type: none"> <li>• Early planning meeting held with Head of Finance and his team.</li> </ul>	<p>Several suggestions to improve the content of the Trustees' report were made and are reflected in the revised charities' accounts.</p>
<p><b>Income recognition</b></p> <p>The 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</p>	<ul style="list-style-type: none"> <li>• Confirmation of the key controls in place for Trade Receivables, Council Tax, Non Domestic Rates and Cash &amp; Banking</li> <li>• Substantive testing of a sample of</li> </ul>	<ul style="list-style-type: none"> <li>• 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.</li> </ul>

Audit Risk	Assurance procedure	Results and conclusions
accordance with ISA240.	<p>income transactions, including agreement of amounts received from Scottish Government, grant income and other income</p> <ul style="list-style-type: none"> <li>• Testing of a sample of income received at year end to confirm it was allocated to the correct financial year.</li> </ul>	<ul style="list-style-type: none"> <li>• Income Transactions - We substantively tested the total Revenue Support Grant to Scottish Government confirmation, a sample of 3 grants received and 20 items (15 General Fund, 5 HRA) of other income. We found all had been accounted for correctly.</li> <li>• Year end income - Sample testing of 10 income items received at year end found that all were allocated to the correct financial year.</li> <li>• No fraud concerns identified in respect of income.</li> </ul>
<p><b>Management override of controls</b></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"> <li>• Detailed testing of journal entries</li> <li>• Review of accounting estimates for bias</li> <li>• Evaluating significant transactions that are outside the normal course of business.</li> </ul>	<ul style="list-style-type: none"> <li>• Journals - a sample of 46 journal entries was tested as part of debtors (16) and creditors (30) testing. We found no evidence to suggest that management were overriding controls.</li> <li>• Estimates - based on testing of debtors, creditors and provisions/contingencies, we found no evidence of bias in accounting estimates.</li> <li>• Significant transactions - based on our work on the annual accounts, we did not find any evidence of transactions outwith the scope of the council.</li> <li>• No fraud concerns identified in respect of management override of controls.</li> </ul>



Audit Risk	Assurance procedure	Results and conclusions
<p><b>Severance payments</b></p> <p>The council is required to disclose the level of severance payments made to staff in the Remuneration report. We are aware of a number of senior staff members who have left the council during the year and therefore where such payments may have been made. There is a risk that any payments made have not been appropriately calculated and authorised.</p>	<ul style="list-style-type: none"> <li>• Sample testing of 5 severance payments made during the year to ensure that they complied with council policy. Where a settlement agreement was reached with an employee, we confirmed that evidence supporting the rationale and authorisation of the amount paid were available.</li> <li>• Further sample of 3 additional significant severance payments disclosed in Remuneration report, but not included in our previous sample.</li> </ul>	<p>For all 8 severance payments sampled, we were satisfied that they were made in accordance with council policy and that appropriate rationale and authorisation was available in each case.</p>

# Appendix II: Summary of Audit Scotland national reports 2015/16



## Appendix III: Action plan

No./Para	Issue/Risk/Recommendation	Management action/response	Responsible officer	Target date
1/133	<p><b>ALEOs</b></p> <p>In order to demonstrate best use in following the public pound, there should be agreed SLAs in place between the council and its ALEOs setting out measurable outcomes for the funding provided which can be effectively monitored by the governance hubs.</p> <p><b><i>Risk: council expectations around the funding it is providing are not delivered</i></b></p> <p><b>Recommendation:</b> the ongoing review of SLAs is concluded and ensure that the council can meet its following the public pound code requirements.</p>	<p>This is being progressed with legal colleagues.</p> <p>Arrangements around ALEOs are included within the council's governance review which will impact on future SLAs.</p>	Senior Democratic Services Manager	Pending governance review

No./Para	Issue/Risk/Recommendation	Management action/response	Responsible officer	Target date
2/165-166	<p><b>Scrutiny</b></p> <p>The dashboard supporting the Strategic Infrastructure Plan provides an effective summary of overall progress for each project. Where there are delays, the supporting narrative for the reasons is not included within the dashboard monitoring. We also noted that lessons learnt messages are not collated for members' consideration.</p> <p><b><i>Risk: there is insufficient information or mixed messages around key priorities</i></b></p> <p><b>Recommendation:</b> To further assist elected member scrutiny and increase transparency, progress reporting for capital projects should be reviewed to ensure cohesive information is provided and audit trails are complete.</p>	Recommendations will be implemented as part of the review to be undertaken by the Strategic Asset and Capital Plan Board.	Strategic Asset and Capital Plan Board	Pending governance review

No./Para	Issue/Risk/Recommendation	Management action/response	Responsible officer	Target date
3/179	<p><b>Public performance reporting</b></p> <p>The council is aware of what it needs to do to improve public performance reporting and has an agreed plan in place. .</p> <p><b>Risk: Public performance reporting is not easily accessible for users.</b></p> <p><b>Recommendation:</b> Ensure there are processes in place to support delivery of the plan.</p>	<p>A Public Performance Reporting Improvement Plan was approved by the Audit, Risk &amp; Scrutiny Committee in April 2016.</p> <p>Its implementation is being managed through a corporate performance management project, which is part of the council's governance review.</p>	Head of Communications and Promotion	September 2017