

## ABERDEEN CITY COUNCIL

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COMMITTEE	Audit, Risk & Scrutiny
DATE	27 June 2017
REPORT TITLE	Unaudited Annual Accounts 2016/17
REPORT NUMBER	CG/17/066
LEAD OFFICER	Steven Whyte, Head of Finance
REPORT AUTHOR	Lesley Fullerton

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### **1. PURPOSE OF REPORT:-**

- 1.1 The purpose of this report is to provide Elected Members with an overview of the Council's 2016/17 unaudited Annual Accounts.
- 1.2 To enable scrutiny of and approval by the Committee on the content of the Annual Governance Statement. The statement has been included in the 2016/17 unaudited Annual Accounts subject to this approval.
- 1.3 The report also provides the unaudited Annual Accounts for those registered charities where the Council is the sole trustee and is subject to statutory requirements for separate accounts and audit opinions.

### **2. RECOMMENDATION(S)**

It is recommended that the Committee:

- a) approve the Annual Governance Statement as included in the Council's unaudited Annual Accounts for the financial year 2016/17;
- b) consider the Council's unaudited Annual Accounts 2016/17;
- c) consider the unaudited Annual Accounts 2016/17 of the Council's registered charities;
- d) note that following this meeting the Council's and the registered charities unaudited Annual Accounts will be finalised, signed and submitted to Audit Scotland by 30 June 2017;
- e) note that as now required by statute, the Audit, Risk & Scrutiny Committee on 26 September 2017 will receive the Council's audited Annual Accounts for consideration and approval prior to their signature by the Head of Finance, Chief Executive and Council Leader;

- f) note that the Audit, Risk & Scrutiny Committee of 26 September 2017 will also receive the external auditor's "Annual Report Members and the Controller of Audit" for debate and consideration and that this report will set out the auditor's finding and conclusions from all audit activity undertaken during the year, highlight the significant issues arising from the audit of the annual accounts and inform Elected Members of the proposed audit opinion in advance of the accounts being certified; and
- g) note that the Audit, Risk & Scrutiny Committee on 26 September 2017 will also receive the audited Annual Accounts for the registered charities for consideration and approval prior to their signature along with the associated external auditor's report.

### **3. BACKGROUND/MAIN ISSUES**

#### **Annual Governance Statement**

- 3.1 The Local Authority Accounts (Scotland) Regulations 2014 specify that the Annual Accounts must include an Annual Governance Statement (AGS).
- 3.2 The AGS should be produced in accordance with proper accounting practices and the CIPFA/SOLACE Framework: Delivering Good Governance in Local Government.
- 3.3 The Council has developed its approach to the annual governance review process and in 2016/17 has again undertaken a self-evaluation of the effectiveness of the Local Code of Corporate Governance.
- 3.4 There are different layers of assurance that have been considered and used in determining the content of the AGS. These include management assurance, the internal audit assurance framework, and the consideration of external audit and external scrutiny.
- 3.5 Management assurance includes the certification of internal controls and assurance by all Heads of Service, along with an assurance statement having been received by, or on behalf of, the Chief Executive of the group entities. The Chief Officer of the Aberdeen City Integration Joint Board has also provided assurance in respect of the Health and Social Care Partnership arrangements.
- 3.6 Further confidence is based on the operational structure and legislative framework that exists for the Council, including the continuity that has been maintained in relation to statutory posts throughout the year.
- 3.7 The Standing Orders, Terms of Reference and Scheme of Delegation define the roles and responsibilities for officers and Elected Members.
- 3.8 The accounting team work closely with budget holders to ensure that a positive relationship exists and there is openness and transparency about decision making and the financial implications.

- 3.9 Given the specialist nature of risk management and its importance to a strong governance framework, the Good Governance Institute (GGI) was approached to evaluate the Council's system of risk management in August 2016 and reported with an assurance development programme in September 2016. This recommended a series of governance and risk improvements which are in the process of being implemented through the Performance, Risk and Improvement Board within the Change Delivery Portfolio.
- 3.10 The Council also invited CIPFA to undertake an interim independent assessment of its governance arrangements, prior to a full assessment against the Mark of Excellence. The results of the interim assessment are included in Table A of the AGS, and demonstrate that the Council is "substantially achieving" CIPFA's standard of good governance. In March 2017, CMT reviewed an action plan to address the areas where improvements are required.
- 3.11 Management Assurance has also been used in considering the progress that has been made around the six significant issues identified in last year's statement. During 2016/17 sufficient progress had been made in addressing four of the issues such that they have now been removed from the list of significant items. For the remaining two items, whilst positive progress has been made, management recognise that there is further work to be undertaken and consider that they should remain on the AGS for 2016/17. Ten new items have been added to the list of significant issues and actions to address these are outlined in section 4 of the AGS.
- 3.12 In undertaking a self-evaluation of the Council's effectiveness of its governance framework a number of officers have reviewed the Local Code using the CIPFA/SOLACE checklists and drawn judgements on the extent to which the Council is effectively complying with the code.
- 3.13 The results of this exercise are set out in Table A of the AGS, where it can be seen that officers consider that we are fully compliant with 53 of the local code requirements (exceeding the requirements in 1 area), but are only partially compliant in 45 areas. Actions to make further improvements to achieve full compliance across all areas of the local code requirements are set out in Table B in section 3 of the AGS.
- 3.14 Independent scrutiny is undertaken by the Internal Audit function, which was carried out by the Internal Audit team from Aberdeenshire Council. They have consistently provided management and the Committee with recommendations on improvements that can be implemented for the benefit, amongst other things, of the control environment.
- 3.15 The annual report from the Head of Internal Audit on the work that they've carried out in 2016/17 is also being considered by this Committee. The content of this has supported the preparation of the AGS.
- 3.16 The report highlights that 26 audits were carried out during the year, providing 340 recommendations that were accepted by management and once implemented will improve the Council's internal control environment. The report also highlighted that some limitations to the scope of the audits had

been experienced. Management considered this to be a significant governance issue and is accordingly included in the list of significant issues outlined in section 4 of the AGS. The report concludes that reasonable assurance can be placed upon the adequacy and effectiveness of the internal control systems.

- 3.17 Of the recommendations made 5 were classed as major at corporate level and 9 major at a service level/within the audited area. Progress made by officers in implementing recommendations is monitored by Internal Audit and reported to this Committee. These 14 recommendations resulted from 6 separate audits. Whilst all 6 were considered for inclusion in the AGS, management considered that implementation of the recommendations relating to 4 of these audits had progressed sufficiently such that they did not need to be included in the AGS.
- 3.18 External scrutiny is required by legislation (Local Authority Accounts (Scotland) Regulations 2014) and the Council's external auditor, Audit Scotland, reported on a variety of areas, not simply the financial statements and financial control environment. These reports, which are produced on a national basis, have been considered in preparing the AGS for 2016/17. Nine such reports were presented to Committee during the year. Management considered that the recommendations from 8 of these reports were either of low risk to the Council or had progressed sufficiently such that they did not need to be included in the AGS.
- 3.19 The preparation of the AGS also featured a review of other external scrutiny. Two reports from the care inspectorate were considered in preparing the AGS for 2016/17. In relation to both these reports management considered that implementation of the recommendations had progressed sufficiently such that they did not need to be included in the AGS.
- 3.20 Self-evaluation identified a further 17 areas to be considered, of which management considered that there were no governance issues in relation to 9 and with sufficient progress made in 2 others such that they did not need to be included in the AGS.
- 3.21 In conclusion and in examining the evidence, the 2016/17 AGS has been prepared with an approach of openness and accountability that recognises the positive framework that the Council has and the effectiveness of it during the financial year. It should be noted that the Statement has been produced by management and is not an independent expression of audit opinion.
- 3.22 The Annual Governance Statement is signed on behalf of Aberdeen City Council by the Chief Executive and Leader of the Council. It is recommended for approval prior to being signed off.

### **Unaudited Annual Accounts**

- 3.23 On 23 February 2017 this committee received and noted the contents of a report, "Annual Accounts 2016/17 – Action Plan" which provided high level information and key dates in relation to the production of the 2016/17 Annual Accounts.

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

31 March 2017	End of the financial year 2016/17
March – Sept 2017	Information from Group Entities (including ALEO's)
14 June 2017	Public Notice for the Public Inspection Period to be issued
22 June 2017	Audit, Risk and Scrutiny Committee to consider the draft Annual Accounts
29 June 2017	Statutory deadline for the Proper Officer to sign the draft Annual Accounts, submit to the Auditor and publish on the website
30 June – 20 July 2017	Public Inspection Period for the draft Annual Accounts
28 July 2017	Deadline for submission of the Whole of Government Accounts (WGA) to the Scottish Government
26 September 2017	Audit, Risk and Scrutiny Committee to consider and aim to approve the audited Annual Accounts for signature
26/27 Sept 2017	Signing of the audited Annual Accounts by the Proper Officer, Chief Executive and Council Leader
29 September 2017	Deadline for submission of the signed audited Annual Accounts to the Auditor
Early October 2017	Deadline for submission of the audited WGA to the Scottish Government (date to be confirmed)
31 October 2017	Statutory deadline for the publication on the website of the signed Annual Accounts & Audit Certificate, related Auditor report and accounts of all subsidiary bodies
15 December 2017	Deadline for submission of the audited Charitable Trust Annual Accounts to OSCR

3.25 There is a statutory requirement under the Local Authority Accounts (Scotland) Regulations 2014 that Annual Accounts for each financial year be submitted for audit to the external auditor no later than 30 June in the next financial year.

3.26 This means that the unaudited Annual Accounts for 2016/17, prepared in accordance with the relevant Accounting Codes of Practice, require to be submitted by 30 June 2017 to Audit Scotland.

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

## **Inspection and Audit of the Accounts**

- 3.27 The Local Authority Accounts (Scotland) Regulations 2014 defines the notice period, the inspection period, the deadline for submission of an objection to the accounts and the information which must be made available for inspection. At least 14 days' public notice must be given prior to the commencement of the inspection period. The latest date by which the public inspection can start is 1 July 2017 and therefore the latest date for issuing this public notice is 16 June 2017. The inspection must last 15 working days and will therefore end on 21 July 2017.
- 3.28 The Regulations also require publication of the unaudited Annual Accounts, as submitted to the Auditor, on the Council's website until the audited accounts can replace them. This not only provides a means by which the public can access the accounts during the inspection period but also ensures the Council is open and transparent in its reporting.
- 3.29 On completion of the audit process, the external auditor's will present their report "Annual Report to Members and the Controller of Audit" to the meeting of this committee on 26 September 2017. This report will highlight any significant issues arising from the audit and inform Elected Members of the proposed audit opinion in advance of the final accounts being certified.
- 3.30 The audited Annual Accounts will also be presented to this meeting for consideration and approval for signature. Thereafter, the accounts will be signed by the Head of Finance, Chief Executive and Council Leader. The signed accounts must be submitted to and signed by Audit Scotland no later than 30 September 2017.

## **Financial Performance and Review of the Accounts**

- 3.31 It should be noted that the unaudited Annual Accounts are prepared according to the requirements of the IFRS based Code of Practice on Local Authority Accounting (the Code) and as a result are more complex and detailed than the information included in the monitoring reports provided to Committee throughout the year.
- 3.32 A report covering the detailed financial position of the Council will be considered by the Finance, Policy and Resources committee on 29 June 2017. This report covers the Council's revenue and capital accounts for General Fund, Housing Revenue and Common Good and the reserves and balances of the Council as at 31 March 2017.
- 3.33 Against total funding from Council Tax, Non Domestic Rates and Revenue Support Grant of £435.2m, the four core services incurred net spend of £426.3m whilst the net spend on the corporate budgets, including capital financing costs and surpluses from trading operations, was £6.3m.
- 3.34 During 2016/17 the Council obtained a credit rating (Aa2) from Moody's Investors Service, highlighting the Council's financial strength and stewardship, a strong local economy and institutional framework as key to this rating. Thereafter, following its listing on the London Stock Exchange (LSE), in

November 2016 the Council issued bonds of £370 million, thus raising finance to fund the Council's capital investment programme.

- 3.35 The credit rating and LSE listing has brought a number of reporting and governance requirements, including the need to consider our financial management systems, processes and routines to take into account the requirements and expectations of holding and maintaining a suitable credit rating and being an Issuer of Bonds.
- 3.36 A project is underway which will see the Council's financial reporting move from monthly to quarterly and to bring about the faster closedown and production of the annual accounts. This project has a number of implications and these will be reported to the Finance, Policy and Resources committee on 29 June 2017. The main impact on this committee will be in relation to when the committee will receive the unaudited and audited annual accounts.
- 3.37 The following paragraphs highlight a number of the key sections of the Annual Accounts.
- 3.35 Management Commentary – focuses on the financial performance of the Council and its group as well as highlighting significant past and future events and comments on the economic climate within which the Council operates.
- 3.36 Comprehensive Income & Expenditure Statement (CIES) and Expenditure & Funding Analysis - reflects the income and expenditure of the Council per the Council's service structure based on the requirements of accounting standards.
- 3.37 Balance Sheet – provides information on the assets and liabilities of the Council together with its usable and unusable reserves. Net assets (i.e. assets less liabilities) have decreased by £22.8 million, from March 2016 to a total of £1.5billion at March 2017. The corresponding decrease in reserves reflects a £8.6 million and £14.1 million drop in usable reserves and unusable reserves respectively.
- 3.38 Common Good and Trusts – the Common Good CIES and Balance Sheet reflect a decrease in the value of its net assets which has resulted in its value decreasing by £1.3million to £111.1million at March 2017. The financial statements of the Trusts now clearly reflect the split between charitable and non charitable trusts. This will aid the separate audit of charitable trusts, which is an OSCR (Office of the Scottish Charity Regulator) requirement and will be carried out by the Council's external auditors.
- 3.39 Group Accounts – these include the Council, its subsidiaries, associate, and joint venture companies and reflects all the significant entities the Council has a controlling interest in. The group balance sheet shows net assets and reserves of £1.6 billion. A few smaller organisations have been excluded from the financial statements due to their relative size on the grounds of materiality and as such their performance is disclosed simply in the notes to the group accounts.

## **Registered Charities**

- 3.40 This encompasses those trusts, registered with OSCR, for which the Council (all 45 Councillors) is the sole trustee. There are nine separately registered charities which for reporting purposes can be grouped together into a single Annual Report and Accounts. The consolidated balance sheet shows a value of £7.1 million, after the elimination of intra trust balances i.e. the investment in the Lands of Skene by the Guildry and Bridge of Don trusts.
- 3.41 These accounts are subject to the same audit process as the Council with the audited accounts and related auditor's report being reported back to this committee on 26 September 2017 for approval prior to signature by the relevant officers and the Council Leader.
- 3.42 Thereafter, they will be submitted to OSCR, no later than 15 December 2017.

## **4. FINANCIAL IMPLICATIONS**

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

## **5. LEGAL IMPLICATIONS**

- 5.1 The preparation of the Annual Governance Statement is a part of the Council's compliance with the CIPFA/SOLACE guidance on 'Delivering Good Governance in Local Government'.
- 5.2 There is a statutory requirement for the Council to produce both unaudited and audited Annual Accounts within certain timescales and to a high standard in accordance with The Local Authority Accounts (Scotland) Regulations 2014, the CIPFA Code of Practice on Local Authority Accounting and generally accepted accounting practices. This is a major task which requires co-operation and input from a large number of people across all services of the Council. It is only with the commitment of all staff that these high standards and deadlines can be met.

## **6. MANAGEMENT OF RISK**

### **Financial**

- 6.1 The robust process of closing the accounts at the financial year-end means that all reasonable steps have been taken to ensure that they are reflective of the financial circumstances of the Council during 2016/17 and as at 31 March 2017. A risk remains that the external audit process reveals potential errors or adjustments and these will be discussed by officers and the external auditor throughout the process, before the audited Annual Accounts and the auditor's report and opinion is presented to the Audit, Risk & Scrutiny Committee in September 2017. The risk is low.

### **Employee**

- 6.2 A detailed year end timetable has been drawn up to ensure all employees are aware of their involvement in the year end process and the information they



must provide for the Annual Accounts. A risk remains that the external audit process reveals potential errors and adjustments and these will be scrutinised by officers and the external auditor throughout the process, before the audited Annual Accounts and the auditor's report and opinion is presented to the Audit, Risk & Scrutiny Committee in September 2017. The risk is low.

### **Customer**

- 6.3 KPMG are the Council's external auditors, a highly reputable firm who will examine and analyse the Annual Accounts and report their findings in the Annual Audit Report. This will minimise any risk to users of the Annual Accounts. The risk is low.

### **Environmental**

- 6.4 This report has no environmental risks.

### **Technological**

- 6.5 The production of the Annual Accounts relies on the finance systems of the Council. There is a risk that these systems could be disrupted. To mitigate these risks the Council has a digital strategy that includes undertaking regular and rigorous checks, taking action as appropriate to protect the integrity of all systems. The risk is low.

### **Legal**

- 6.6 The annual external audit scrutiny provides assurance that the legislation referred to in paragraph 5.2 has been followed. The risk of the Annual Accounts not complying with this legislation is low.

### **Reputational**

- 6.7 There is a risk that the information contained in the Annual Accounts document may cause damage to the Council's reputation. This risk is mitigated by independent examination of this information by senior staff members and the external auditors. The risk is therefore low.

## **7. IMPACT SECTION**

### **Economy**

- 7.1 The accounts for 2016/17 have recognised the role of the Council in delivering specific projects that will deliver economic impacts in their own right; and the Council's corporate role in delivering wider 'business facing' activity in supporting the competitiveness of the business environment.
- 7.2 The economy is exposed to external issues such as Brexit, globalisation and higher prices, as well as macro-economic issues relating to energy prices that will have a proportionately higher direct impact on the local economy than elsewhere in Scotland and the United Kingdom.

## **People**

- 7.3 The Accounts for 2016/17 provide details of income and expenditure incurred in the provision of services in Aberdeen City for the year.

## **Place**

- 7.4 The Annual Accounts report provides financial information to the people of Aberdeen regarding the services in their area. The narrative report contained within explains the governance of the Council, and projects that ACC has undertaken over the past year, along with future plans for Aberdeen City.

## **Technology**

- 7.5 The aim of the Council's digital strategy is to make it easier for employees to do their jobs, give customers better choice in how they get information and use services, ensure that information is shared and to use data to make better decisions.

## **8. BACKGROUND PAPERS**

'Delivering Good Governance in Local Government, Framework (2016 Edition)' CIPFA & SOLACE, 2016;  
'Delivering Good Governance in Local Government, Guidance Note for Scottish Local Authorities (2016 Edition)' CIPFA & SOLACE, 2016;  
Unaudited Annual Accounts 2016/17

## **9. APPENDICES**

Appendix A - Unaudited Annual Accounts 2016/17

## **10. REPORT AUTHOR DETAILS**

Lesley Fullerton  
Senior Accountant  
[lfullerton@aberdeencity.gov.uk](mailto:lfullerton@aberdeencity.gov.uk)  
01224 346402

## **HEAD OF SERVICE DETAILS**

Steve Whyte  
Head of Finance  
[swhyte@aberdeencity.gov.uk](mailto:swhyte@aberdeencity.gov.uk)  
01224 523566