

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk & Scrutiny
DATE	8 May 2018
REPORT TITLE	Unaudited Annual Accounts 2017/18
REPORT NUMBER	RES/18/011
DIRECTOR	Steven Whyte
CHIEF OFFICER	Sandra Buthlay
REPORT AUTHOR	Lesley Fullerton
TERMS OF REFERENCE	Section 4.1 consider and approve the Council's Annual Report and Annual Accounts and 4.2 consider and approve the annual governance statement

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide Elected Members with an overview of the Council's 2017/18 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 2017/18 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)

- 2.1 It is recommended that the Committee:-
 - 2.1.1 approve the Annual Governance Statement as included in the Council's unaudited Annual Accounts for the financial year 2017/18;
 - 2.1.2 consider the Council's unaudited Annual Accounts 2017/18;
 - 2.1.3 consider the unaudited Annual Accounts 2017/18 of the Council's registered charities;
 - 2.1.4 note that following this meeting the Council's and the registered charities unaudited Annual Accounts will be finalised, signed and submitted to Audit Scotland;

- 2.1.5 note that the Audit, Risk & Scrutiny Committee on 26 June 2018 will receive the Council's audited Annual Accounts for consideration and approval prior to their signature by the Director of Resources, Chief Executive and a Council Leader;
- 2.1.6 note that the Audit, Risk & Scrutiny Committee of 26 June 2018 will also receive the external auditor's report on the annual accounts for debate and consideration and that this report will set out the auditor's findings and conclusions, 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
- 2.1.7 note that the Audit, Risk & Scrutiny Committee on 26 June 2018 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

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 2017/18 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 Each Chief Officer has reviewed their portfolio and certified their effectiveness to the Chief Officer – Governance and the Director of Resources, with reference to the Scheme of Governance as revised in March 2018, to support implementation of the Target Operating Model, as well as a number of additional outputs. This was overseen by the Governance Delivery Board and the elected member Governance Reference Group.
- 3.10 Management Assurance has also been used in considering the progress that has been made around thirteen significant issues identified in last year's statement. During 17/18 sufficient progress has been made in addressing nine of the issues such that they have been removed from the list of significant items. For the remaining four 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 2017/18. One additional item has been added to the list of significant issues and actions to address. This is outlined in section 4 of the AGS.
- 3.11 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. The summary of this governance activity can be found at table A of the AGS.
- 3.12 Independent scrutiny is undertaken by the Internal Audit function, which was carried out by the Internal Audit team from Aberdeenshire Council. They have provided management and the Committee with recommendations on improvements that can be implemented for the benefit, amongst other things, of the control environment. The annual report from the Head of Internal Audit on the work they have carried out in 2017/18 will be considered by Audit, Risk and Scrutiny Committee in June 2018.
- 3.13 External scrutiny is required by legislation (Local Authority Accounts (Scotland) Regulations 2014) and the Council's external auditor, KPMG, 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 2017/18. In 2017 KPMG reviewed our existing function covering the Public Sector Internal Audit Standards (PSIAS), as well as making comparisons to best practice for an entity listed on the London Stock Exchange. Recommendations made by KPMG were reported to Audit, Risk & Scrutiny Committee in November 2017, and a series of actions were agreed, which are in the process of being progressed.
- 3.14 In conclusion and in examining the evidence, the 2017/18 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.

- 3.15 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

- 3.16 On 22 February 2018 this committee received and noted the contents of a report, "Annual Accounts 2017/18 – Action Plan" which provided high level information and key dates in relation to the production of the 2017/18 Annual Accounts.

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

31 March 2018	End of the financial year 2017/18
Jan – June 2018	Information from Group Entities (including ALEO's)
20 April 2018	Public Notice for the Public Inspection Period to be issued
8 May 2018	Signing of the unaudited Annual Accounts by the Proper Officer
8 May 2018	Audit, Risk and Scrutiny Committee to consider the unaudited Annual Accounts
14 May – 4 June 2017	Public Inspection Period for the unaudited Annual Accounts
26 June 2018	Audit, Risk and Scrutiny Committee to consider and aim to approve the audited Annual Accounts for signature
26 June 2018	Signing of the audited Annual Accounts by the Proper Officer, Chief Executive and Council Leader
30 June 2018	Statutory deadline for the Proper Officer to sign the unaudited Annual Accounts, submit to the Auditor and publish on the website
20 July 2018	Deadline for submission of the Whole of Government Accounts (WGA) to the Scottish Government
28 September 2018	Deadline for submission of the signed audited Annual Accounts to the Auditor
September 2018	Audit Risk & Scrutiny Committee to consider the Auditor's Annual Report
September 2018	Deadline for submission of the audited WGA to the Scottish Government (date to be confirmed)
31 October 2018	Statutory deadline for the publication on the website of the signed Annual Accounts & Audit Certificate, related Auditor report and accounts of all subsidiary bodies
24 December 2018	Deadline for submission of the audited Charitable Trust Annual Accounts to OSCR

- 3.18 Whilst there are statutory requirements under the Local Authority Accounts (Scotland) Regulations 2014 which specify deadlines in relation to the unaudited and audited Annual Accounts, this does not prevent us from working to earlier dates and indeed the earlier completion of our Annual Accounts could be considered best practice.
- 3.19 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

- 3.20 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 2018. The inspection must last 15 working days. As the Annual Accounts process is being undertaken to earlier deadlines this year the public inspection period will begin on 14 May 2018 and end on 4 June 2018.
- 3.21 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.
- 3.22 On completion of the audit process, the external auditor's will present their report on the audit of the Annual Accounts to the meeting of this committee on 26 June 2018. 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.
- 3.23 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 Director of Resources, Chief Executive and a Council Leader. The signed accounts must be submitted to and signed by Audit Scotland no later than 30 September 2018.

Financial Performance and Review of the Accounts

- 3.24 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.

- 3.25 A report covering the detailed financial position of the Council was considered by the City Growth and Resources committee on 24 April 2018. This report covered the Council's revenue and capital accounts for General Fund, Housing Revenue and Common Good and the reserves and balances of the Council as at 31 March 2018.
- 3.26 Against total funding from Council Tax, Non-Domestic Rates and Revenue Support Grant of £436m, the four core services incurred net spend of £409m whilst the net spend on the corporate budgets, including capital financing costs and surpluses from trading operations, was £22m.
- 3.27 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.
- 3.28 In 2017/18 the Council's financial reporting moved from monthly to quarterly, to bring about the faster closedown and production of the Annual Accounts 2017/18. The main impact of this is the presentation of the unaudited and audited annual accounts at this committee to the earlier deadlines noted above.
- 3.29 The following paragraphs highlight some of the key sections of the Annual Accounts:
- 3.30 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.
- 3.31 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.
- 3.32 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 £126 million from March 2017 to a total of £1.367 billion at March 2018. The corresponding decrease in reserves reflects a £25 million and £101 million drop in usable reserves and unusable reserves respectively.
- 3.33 Common Good and Trusts – the Common Good CIES and Balance Sheet reflect an increase in the value of its net assets which has resulted in its value increasing by £3.2 million to £114.3 million at March 2018. 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.

- 3.40 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 £1.481 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

- 3.41 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 £7.255 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.
- 3.42 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 June 2018 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 24 December 2018.

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

	Risk	Low (L), Medium (M), High (H)	Mitigation
Financial	External audit reveals errors &/or adjustments	L	Officers discuss with Auditors throughout external audit process.
Legal	Risk of Legislation not being followed	L	Staff working with external audit to ensure compliance with legislation
Employee	External audit reveals errors &/or adjustments	L	Officers discuss with Auditors throughout external audit process.
Customer	Customer/relationship management	L	External Auditors will examine and scrutinise the Annual Accounts and report their findings in the Annual Audit Report.
Environment	n/a	n/a	n/a
Technology	Risk that the Finance systems could be disrupted	L	Digital strategy that includes regular and rigorous checks to protect the integrity of all systems.
Reputational	Information contained in the Annual Accounts may cause damage to the Council's reputation	L	Independent examination by senior staff and external auditors

7. OUTCOMES

Local Outcome Improvement Plan Themes	
	Impact of Report
Prosperous Economy	<p>The accounts for 2017/18 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.</p> <p>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.</p>
Prosperous People	The Accounts for 2017/18 provide details of income and expenditure incurred in the provision of services in Aberdeen City for the year.
Prosperous Place	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.
Enabling Technology	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.

This report does not impact on the design principles of the Target Operating Model.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights Impact Assessment	not required
Privacy Impact Assessment	not required
Duty of Due Regard / Fairer Scotland Duty	not applicable

9. 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 2017/18

10. APPENDICES

Appendix A - Unaudited Annual Accounts 2017/18
Appendix B - Aberdeen City Council Registered Charities unaudited Annual Report and Accounts 2017/18

11. REPORT AUTHOR CONTACT DETAILS

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