

**Aberdeenshire Council**

**Our Final Report to the Scrutiny and  
Audit Committee on the 2012 Audit**

Dear Sirs

We have pleasure in setting out in this document our report to the scrutiny and audit committee of Aberdeenshire Council for the year ended 31 March 2012 for discussion at the meeting scheduled for 19 September 2012. This report covers the principal matters that have arisen from our audit for the year ended 31 March 2012.

In summary:

- The major issues, which are summarised in the Executive Summary, have now been largely addressed and our conclusions are set out in our report.
- A material audit adjustment of £48.959 million was required to the Sheltered Housing valuation due to a discount factor of 51%, to reflect existing use value – social housing, not being applied in the original valuation by the Council's valuer.
- Weaknesses were noted within the bank reconciliation process, resulting in an adjustment of £3.5 million being required.
- There are a number of judgemental areas to which we draw your attention in our report which you should consider carefully.
- In the absence of unforeseen difficulties, management and we expect to meet the agreed audit and financial reporting timetable.

We would like to take this opportunity to thank the management team for their assistance and co-operation during the course of our audit work.

Senior Statutory Auditor

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# Executive summary

Status	Description	Detail
<b>Completion of the audit</b>		
<b>Our audit is largely complete</b>	<p>The status of the audit is as expected at this stage of the timetable agreed in our audit plan.</p> <p>The following are the remaining areas we are required to complete to finalise the audit:</p> <ul style="list-style-type: none"> <li>• Our review of events since 31 March 2012; and</li> <li>• Receipt of signed management representation letter.</li> </ul>	N/A
<b>Overall view</b>		
<b>Anticipated unmodified audit opinion</b>	<p>On satisfactory completion of the outstanding matters noted above, we anticipate issuing an unmodified audit opinion on the truth and fairness of the financial statements.</p> <p>The matters that we have taken into account in forming our overall view are described in the following sections.</p>	N/A

# Executive summary (continued)

Status	Description	Detail	
<b>Significant audit risks</b>			
<p><b>Our work on the significant audit risks is complete. We are satisfied that the financial statements are not materially misstated in relation to these risk areas</b></p> <p><b>A £48.959 million adjustment was identified in relation to valuation of Sheltered Housing properties</b></p>	<p>We discuss within <b>Section 1</b> the results of our work in relation to the key audit risk which have been identified as being significant for the current year accounts. These include:</p> <ol style="list-style-type: none"> <li>1. Expenditure recognition;</li> <li>2. Revenue recognition (council tax and housing rents);</li> <li>3. Asset register system depreciation calculation;</li> <li>4. Property, plant and equipment (PPE) valuation;</li> <li>5. Capital accounting reserves;</li> <li>6. Recording of provisions; and</li> <li>7. Management override of controls.</li> </ol>	<p><b>Status</b></p> <ul style="list-style-type: none"> <li>● (Green)</li> <li>● (Amber)</li> <li>● (Amber)</li> <li>● (Amber)</li> <li>● (Green)</li> <li>● (Green)</li> <li>● (Amber)</li> </ul>	<p><b>Section 1</b></p>

● Risk appropriately addressed.  
(Green)

● Risk satisfactorily addressed but with adjusted or unadjusted errors identified.  
(Amber)

● Material unresolved matter.  
(Red)

# Executive summary (continued)

Status	Description	Detail
<b>Our observations on your financial statements</b>		
<p><b>Disclosures agreed as in line with the Code of practice on local authority accounting in the United Kingdom 2011/12</b></p>	<p>We have performed a review of the financial statements against the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code). We have made comments in this report on the following:</p> <ul style="list-style-type: none"> <li>• Prior year adjustment;</li> <li>• Disclosure of critical accounting judgements and key sources of estimation uncertainty;</li> <li>• Related party disclosures;</li> <li>• Disclosure on the Defined Benefit Pension Schemes;</li> <li>• Financial ratios;</li> <li>• Statement of Assurance; and</li> <li>• Remuneration Report, incorporating new disclosure on Exit Packages.</li> </ul>	<p><b>Section 3</b></p>

# Executive summary (continued)

Financial performance and outlook		
<p><b>The Comprehensive Income and Expenditure statement reports a deficit of £26.131 million. After adjusting for non-cash items the Council achieved an in year surplus of £10.459 million, compared with a budgeted deficit of £9.777 million</b></p>	<p>The Council's budget for 2011/12 was set at £541.307 million, which included a budgeted use of reserves of £9.777 million. The final outturn for the year was an in year surplus of £10.459 million, which has been added to the General Fund balance brought forward. Explanations for the significant variances resulting in this surplus are discussed in detail in <a href="#">Section 4</a>.</p> <p>Total capital expenditure for the year was £74.782 million, in comparison to an approved budget of £107.234 million, which was financed through a combination of capital receipts, government grants, borrowing and capital financed from revenue. The key areas of expenditure were £25.088 million on Council Dwelling improvements, £2 million on ICT, £3 million on Fraserburgh Pool and Community Centre, £3 million on Mearns Academy, £10 million on roads resurfacing/ reconstruction and £5 million on vehicles.</p> <p>A budgeted net expenditure of £547.915 million was approved by the Council for 2012/13. Provisional budgets for 2013/14 through to 2016/17 were also approved at the February 2012 meeting. The 2012/13 budget included savings approved as part of the 2011/12 budget process, agreed by the Council in November 2010.</p> <p>The 2012/13 non-housing capital programme totals £78.561 million and the housing capital programme totals £23.999 million. These are being funded by a combination of borrowing, capital grants, use of capital receipts and finance from revenue.</p>	<p><a href="#">Section 4</a></p>

# Executive summary (continued)

Status	Description	Detail	
<b>Other issues</b>			
<p>We have no major issues that we wish to draw to the committees' attention from our enquiries into the arrangements in place for the other issues which have not been assessed as financial statement risks in our plan.</p>	<p>Other issues which have not been assessed as financial statement risks, but were considered as part of our audit in line with compliance with the Code of Audit Practice and work on Best Practice are:</p> <ol style="list-style-type: none"> <li>1. Delivery of services with reduced funding;</li> <li>2. Achievement of local and national outcomes from Single Outcome Agreement;</li> <li>3. Sustainable workforce;</li> <li>4. Approach to corporate improvement and performance management;</li> <li>5. Housing and Council Tax benefit governance and performance;</li> <li>6. Instability of key suppliers;</li> <li>7. Industrial relations;</li> <li>8. Councillor training;</li> <li>9. Risk management; and</li> <li>10. Governance model and transformation.</li> </ol>	<p><b>Status</b></p> <ul style="list-style-type: none"> <li>● (Green)</li> <li>● (Green)</li> <li>● (Green)</li> <li>● (Green)</li> <li>● (Green)</li> <li>● (Green)</li> <li>● (Green)</li> <li>● (Green)</li> <li>● (Amber)</li> <li>● (Amber)</li> <li>● (Green)</li> </ul>	<p><b>Section 5</b></p>

● Issue reviewed & procedures deemed appropriate.  
(Green)

● Issue reviewed and minor recommendations raised.  
(Amber)

● Issue reviewed and significant recommendations raised.  
(Red)



# Executive summary (continued)

Status	Description	Detail
<b>Performance Reporting and Statutory Performance Indicators (SPIs)</b>		
<p>We have assessed that the Council is fulfilling its obligations with regard to publishing accurate and complete performance information</p>	<p>We have reviewed the Council's arrangement for collecting and recording information, and for publishing it, as required for its performance of its duties. As a result of this testing, three indicators were required to be amended as they were found to be incorrect. We therefore recommend that similar testing is performed by Council staff in future years to identify any anomalies before they are submitted for audit.</p>	<p><a href="#">Section 6</a></p>
<b>Audit Scotland National performance reports</b>		
<p>We have followed up the Council's progress in response to the specific national performance report highlighted by Audit Scotland</p>	<p>In line with our planning paper we have completed our work on the National performance reports. <a href="#">Section 7</a> includes a summary of our findings.</p> <p>We have reviewed how the Council have responded to the national performance reports; "Scotland's public finances: addressing the challenges", "Transport for health and social care", "A Review of Community Health Partnerships" and "Modernising the planning system".</p> <p>In addition, we have performed a focused follow up on "Maintaining Scotland's roads".</p>	<p><a href="#">Section 7</a></p>
<b>Risk management and internal control systems</b>		
<p>Some significant observations in relation to the financial close and reporting process that we believe has scope for improvement</p>	<p>We have made a number of observations in relation to the period financial control environment and in <a href="#">Section 8</a> we have set out a summary of the more significant observations identified during our audit.</p> <p>We are discussing the planned timetable for the issuance of our management letter with management but would expect to issue after the audit debrief in October. Our management letter will provide further details of the results of our work on accounting and internal control systems.</p>	<p><a href="#">Section 8</a></p>

# Executive summary (continued)

Status	Description	Detail
<b>Independence</b>		
<p><b>We are independent as stipulated by APB Ethical Standards of Auditors</b></p>	<p>Our reporting requirements in respect of independence matters, including fees, are covered in <a href="#">Section 11</a>.</p>	<p><a href="#">Section 11</a></p>
<b>Identified misstatements and disclosure misstatements</b>		
<p><b>All identified misstatements which are material have been corrected by management. This has included a material adjustment of £48.959 million to the value of the Council's Sheltered Housing</b></p>	<p>Audit materiality was £6 million as set out in our audit plan. Final materiality based on year end balances has been calculated at £5.6 million.</p> <p>Details of all unrecorded audit adjustments are included in <a href="#">Appendix 1</a>. No material uncorrected misstatements have been identified.</p> <p>Details of recorded audit adjustments are included in <a href="#">Appendix 1</a>. The following adjustments have been brought to your attention:</p> <ul style="list-style-type: none"> <li>• An adjustment of £48.959 million was required to the value of the Sheltered Housing, within the Council Dwellings category of Property, Plant and Equipment. This has arisen due to the Council's internal valuers omitting to apply a discount factor to reflect Existing Use Value – Social Housing, as required under the Code. A discount factor of 51% was applied to the General Housing Stock, representing the difference between public and private rental sector. Management has confirmed that there is no separate private rental sector for Sheltered Housing, therefore this 51% should also apply.</li> <li>• An adjustment of £5.781 million was required to the write down amount applied to the Revaluation Reserve due to errors in the reports from the asset register system.</li> <li>• An adjustment of £4.278 million was required to discount at the above discount factor to the Council new build properties, which had been incorrectly brought onto the Balance Sheet at full value.</li> <li>• An adjustment totalling £3.6 million was required to correct the bank balance. This has arisen due to the Council incorrectly adjusting the bank balance within the Council Tax and Business Rates accounts against the receivable, rather than correctly showing as a bank balance at the year-end.</li> </ul>	<p><a href="#">Appendix 1</a></p>

# Executive summary (continued)

Status	Description	Detail
<b>Significant representations</b>		
<b>Certain specific representations have been requested from the Council</b>	A copy of the representation letter to be signed on behalf of the Council is included at <b>Appendix 2</b> . Non-standard representations have been highlighted in this letter.	<b>Appendix 2</b>

# Financial statements and corporate governance

## 1. Significant audit risks

The results of our audit work on significant audit risks are set out below:

### Understanding the subjective judgements and estimates

The table below shows, on a range of acceptable outcomes from less prudent to more prudent, where management's key assumptions and valuations relating to significant estimates lie.

	← Acceptable range →												
	Less prudent						More prudent						
<b>Expenditure recognition</b>						✓							Expenditure recognised in accordance with the Code, with correct classification between revenue and capital spend.
<b>Revenue recognition (council tax and housing rents)</b>												✓	Revenue recognised agrees to the Scottish Government's confirmed funding for Revenue Support Grant and Non-Domestic Rates. Council Tax income based on net Council Tax levied to residents, after deducting discounts, reductions and allowance for bad debt. From our testing of the Council Tax bad debt provision, the Council has over-provided by £1.7 million for debts from 1994 to 2005. This is partly offset by an under-provision from 2006 to 2010, based on actual collection rates.
<b>Asset register system depreciation calculation</b>						✓							The write-down of the Revaluation Reserve is based on a report from asset register system. As noted above, we have identified a £5.782 million adjustment, which is based a sample of assets included in the Revaluation Reserve.
<b>Property, plant and equipment (PPE) valuation</b>												✓	Revaluations of PPE based on methodology and assumptions adopted by the Council's internal valuers. All operational land and buildings are revalued over a 5 year rolling programme. As noted above we have identified a £48.959 million adjustment to the valuation of the Sheltered Housing property and a further £4.278 million adjustment to the general housing stock. We have considered impairment for those assets not included in the current year valuation and no issues were noted.
<b>Recording of provisions</b>												✓	Provision for equal pay claims based on information provided by the Council's HR team, being the total number of outstanding claims outstanding valued at the average value of claims paid in previous years. Provision for voluntary severance is based on information provided by the Council's HR team, being those members of staff who have signed acceptable for voluntary severance pre-year-end.

Position post audit-adjustment ✓

# Financial statements and corporate governance (continued)

## 1. Significant audit risks (continued)

### Expenditure Recognition Status ● (green)

#### Background

Following the UK Government's Comprehensive Spending Review and the announcement of funding for 2011/12, the Council identified savings totalling £51 million over the period 2011-2013, of which £28.8 million savings are required in 2011/12 to balance the budget. Given the scale of these savings there is a risk that material misstatement due to fraudulent financial reporting may arise from the manipulation of expenditure recognition. This may be by deferring expenditure to a later period, incorrectly classifying revenue spend as capital or not recognising expenditure in the correct financial period.

#### Deloitte response

We have reviewed the methods applied to monitor and report on performance against budget to the Council, through the Policy and Resources Committee. This is covered in the financial performance and outlook in [Section 4](#). We have concluded through the performance of our year end analytical procedures and test of detail, that expenditure and receipts were incurred or applied in accordance with the Council procedures and the 2011/12 Code and the expenditure is valid and correctly classified between revenue and capital spend. We have also tested for any unrecorded liabilities, and confirmed that expenditure has not been deferred.

### Revenue recognition (council tax and housing rents) Status ● (amber)

#### Background

Under ISA (UK and Ireland) 240 'The auditor's responsibility to consider fraud in an audit of financial statements there is a non-rebuttable presumption that there is a risk of fraud in relation to revenue recognition'.

For the Council we have considered this risk to be around the completeness of the Council Tax and Housing Rents income.

#### Deloitte response

We have reviewed the treatment of income in the year to consider whether it is in line with IFRS guidance and the Code.

We have confirmed the net Council Tax income recognised to the amounts recorded within the Council Tax system, and reconciled this to the movement in number of houses in the year, as independently reconciled to the Assessor. We have confirmed the net Housing Rents income recognised through the Housing Revenue Account to the amounts recorded within the Housing Rents system. We have reconciled this to the movement in the number of houses in year, as independently verified by the Council's valuers, and the average rent increase as approved as part of the budget process for 2011/12.

We have noted that the methodology applied in calculating this provision should be reviewed to ensure that cognisance is taken of actual collection rates. Our testing has noted that the Council has over-provided by £1.7 million for the years 1994 to 2008. This can be partly compensated by an under-provision from the 2009 to 2012, which is estimated to be £1.7 million using the average collection rate between 2001 and 2010.

# Financial statements and corporate governance (continued)

## 1. Significant audit risks (continued)

### Asset register system depreciation calculation

Status ● (amber)

#### Background

The Asset Register System (Logotech) used by the Council does not calculate the depreciation on assets revalued in the year or the movements on the Revaluation Reserve correctly. While this issue has been raised by the Council at the Logotech User Group meetings it has still to be resolved. As a result, manual checking and adjustments are required by Council staff to ensure that the financial statements are not materially misstated. This manual intervention presents a risk that misstatements may occur.

#### Deloitte response

The difference between the fair value depreciation and historical cost depreciation charged to the Revaluation Reserve in the year was £18.224 million. The Council were of the opinion that the system had been corrected and could therefore be used as a basis for the journal. However, due to deficiencies in the asset register system still remaining, we are unable to take reliance on the data from the system to support this figure. The system calculation omitted to calculate the write down on the Council Dwelling revaluations, any upward revaluations in the current year and errors were also noted in the brought forward balance. The Council manually recalculated the adjustment for the Council Dwellings (£4.166 million), the assets with upward revaluations in the year (£0.115 million), and based on a sample of other assets included in the Revaluation Reserve, an extrapolated error of £1.501 million was calculated. The Council should liaise closely with the software provider to ensure that this error is corrected for future years.

# Financial statements and corporate governance (continued)

## 1. Significant audit risks (continued)

### Property, plant and equipment (PPE) valuation

Status ● (amber)

#### Background

We have identified an audit risk in respect of PPE valuation because, with changes in the economic environment and property markets, these assets can be subject to material changes in value and there is a risk that these changes are not appropriately recorded in the financial statements.

IFRS requires revaluation to be made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Where additions or significant completed projects are recorded at cost during the year, or where the valuation happened earlier than the end of the year, there is a risk that this cost/valuation is materially different to the fair value at the end of the reporting period.

#### Deloitte response

Deloitte obtained and reviewed the revaluation performed on Land and Buildings by its in-house Valuers, to ensure that the valuations have been performed by suitably qualified individuals and that valuations have been made using a reasonable basis and have been performed in a timely manner. We have selected a sample of assets and reperformed the calculation agreeing that the correct charge or gain has been taken through the correct line of the financial statements (revaluation reserve or CIES), based on the valuations of buildings provided by the valuer and the NBV per the Fixed Asset register. We have also agreed the revaluation reserve balance for the asset to the calculated surplus.

Our internal property specialists have assisted us in reviewing the skills, qualifications and resources of the valuer, the scope and basis of instructions to the valuer and the valuation methodology, assumptions and changes to assumptions since the last valuation.

We identified during this review that the revaluation of the Council's Sheltered Housing portfolio had not been adjusted by a discount factor to reflect Existing Use Value – Social Housing, as required under the Code. A discount factor of 51% was applied to the General Housing Stock, representing the difference between public and private rental sector. Management has confirmed that there is no separate private rental sector for Sheltered Housing, therefore this discount of 51% should also apply. This has resulted in a material audit adjustment of £48.959 million, moving from a gain of £26.7 million to an impairment of £24.199 million in 2011/12. We have concluded that this did not require a prior period adjustment as would have no impact on the General Fund balance and therefore no effect on the users of the accounts. Also, as the misstatement has been corrected in the current year, the net book value of the assets disclosed is now correct. Additional disclosure was required to be made to the final accounts to explain this change.

We also identified that the Council's new build Council Houses which were transferred from Assets Under Construction in the year had been incorrectly included on the Balance Sheet at full value. This has resulted in a further audit adjustment of £4.278 million, reflecting the 51% discount factor applicable to all Council houses.

# Financial statements and corporate governance (continued)

## 1. Significant audit risks (continued)

### Capital accounting reserves

Status ● (green)

#### Background

There is an audit risk in relation to the capital accounting reserves due to their complex nature and the value of transactions processed at the year-end giving rise to potential material misstatements.

#### Deloitte response

We gained an understanding of the journal entries processed at the year-end for all capital accounting reserves, and performed sample testing to ensure that they have been processed in line with the 2011/12 Code. We have agreed all adjustments made to others areas of the financial statements, in particular the depreciation, impairment and revaluation amounts and confirmed that these have been accounted for in accordance with the code. See significant risk “asset register system depreciation calculation” above in respect of our audit procedures on the £18 million adjustment to the Revaluation Reserve.

### Recording of provisions

Status ● (green)

#### Background

There is an audit risk in relation to inadequate recording of provisions in the financial statements. Significant provisions may be required to reflect the costs of compensation for equal pay claims for staff who have not yet signed compromise agreements and who have progressed a tribunal claim and costs in relation to early retirement/ redundancy costs where agreements have been reached prior to the year end. There is a risk that year end provisions are incomplete or inadequate.

#### Deloitte response

##### Equal Pay Claims

We obtained confirmation from the Council's HR team of the total number of outstanding claims at 31 March 2012, and sample tested the provision calculation which was based on the average value of the claims to date. We selected a sample of claims used to calculate the average value and agreed back to equal pay agreements. No issues noted.

##### Voluntary Severance

We obtained a listing of all voluntary severance payments included within the provision and traced a sample back to signed acceptance letters. We have verified this to the disclosure on Exit Packages included within the Remuneration Report (see [Section 3](#)). No issues noted.



# Financial statements and corporate governance (continued)

## 1. Significant audit risks (continued)

Management override of controls		Status ● (amber)
<b>Background</b>	Management is in a unique position to perpetrate fraud because of Management's ability to directly or indirectly manipulate accounting records and prepare fraudulent Financial Statements by overriding controls that otherwise appear to be operating effectively. The risk of management override of control is present in all entities. This risk cannot be pinpointed to an account balance or potential error and therefore specific procedures to respond to the risk of management override of controls should be designed and performed.	
<b>Deloitte response</b>	<p>We have obtained an understanding of the design and implementation of the key controls in place in relation to the posting of journal entries. We have performed procedures on a judgmental sample of journal entries posted in the year and confirmed the appropriateness of the journals posted. We noted from our sample testing that staff at accountant level and above can prepare and authorise the same journal without any independent review. This is not considered best practice and we would recommend that there should be an independent review of all journals.</p> <p>In addition, we have also conducted a review of significant accounting estimates in order to assess the reasonableness of managements' judgements in relation to these estimates. We have not noted any transactions that appear to be outwith the course of normal business.</p>	

# Financial statements and corporate governance (continued)

## 2. Liaison with internal audit

A key element of our work on internal controls is the extent of reliance that we can place on the work of internal audit in terms of International Standard on Auditing 610 (Considering the work of internal audit). We carried out an assessment of the organisational status, scope of function, objectivity, technical competence and due professional care of the internal audit function provided by Aberdeenshire Council and concluded that we could place reliance on its work.

We placed reliance on aspects of their work in a number of areas and in particular Key Financial Controls. This not only avoided duplication of effort but also enabled us to focus on other significant risks.

Our reliance upon the work of internal audit was in line with the position presented within our planning paper dated 8 February 2012.

# Financial statements and corporate governance (continued)

## 3. Our observations on your financial statements

In the course of our audit of the financial statements, we consider the qualitative aspects of the financial reporting process, including items that have a significant impact on the relevance, reliability, comparability, understand ability and materiality of the information provided by the financial statements. Our comments on the quality and acceptability of the accounting policies and estimates are discussed below.

### Prior Year Adjustment

#### Description

IAS 8 and the 2011/12 Code requires that where a prior period error is corrected, an authority shall disclose the following:

- the nature of the prior period error;
- the amount of the correction for each financial statement line item affected; and
- the amount of the correction at the beginning of the earliest prior period presented.

#### Deloitte response

We have assessed the above disclosures based on our review of the financial statements. A restated opening balance sheet has been disclosed to reflect a change in accounting policy for heritage assets, as required by the Code. A note explaining the adjustment required has been incorporated into Note 26 of the accounts and clearly explains the impact that this has on the financial statements. The note shows the impact for each financial statement line that has been affected.

# Financial statements and corporate governance (continued)

## 3. Our observations on your financial statements (continued)

### Disclosure of critical accounting judgements and key sources of estimation uncertainty

#### Description

IAS 1 requires disclosure of:

- the critical judgements made in the process of applying accounting policies, which have the most significant effects on the amounts recognised in the financial statements; and
- major sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Critical accounting judgements and key sources of estimation uncertainty identified by management are:

- there is a high degree of uncertainty about future levels of funding for local government;
- property, plant and equipment valuations;
- provisions for equal pay; and
- pension liability.

#### Deloitte response

We have assessed the above disclosures based upon our review of the financial statements and understanding of the organisation and the specific risks we identified as part of our planning process. We have considered property, plant and equipment valuation and provisions in [Section 1](#) under significant audit risks, and discussion on Pension Liability is covered in [Section 3](#). We have not identified any other critical accounting judgements or key sources of estimation uncertainty that require to be disclosed.

# Financial statements and corporate governance (continued)

## 3. Our observations on your financial statements (continued)

### Related party disclosures

#### Description

The 2011/12 Code requires reporting of related party relationships, transactions and balances. The disclosure required in respect of central government departments, government agencies, NHS bodies and other local authorities are less detailed than in the 2010/11 Code.

The Council does not have a separate process or controls in place to ensure transactions with these individuals are identified and appropriately approved and disclosed as they are covered by normal purchasing procedures. All transactions with such parties are identified and analysed appropriately at the year-end.

#### Deloitte response

We have inquired of management whether there are any transactions that they are aware of with these parties, and have included a listing of Councillors and senior management in our work on related parties.

We have not identified any undisclosed related party transactions.

# Financial statements and corporate governance (continued)

## 3. Our observations on your financial statements (continued)

### Disclosure on the Defined Benefit Pension Schemes

#### Description

The Council participates in two defined benefits schemes:

- Scottish Teachers' Pension Scheme, administered by the Scottish Government. This is an unfunded scheme and the Scottish Government use a notional fund as the basis for calculation the employers' contribution rate paid by Local Authorities. As insufficient information is available about the assets and liabilities attributable to the Council, this is accounted for as if it was a defined contribution plan, with no pension liability shown on the balance sheet and contributions payable recognised as an expense each period.
- The Local Government Pension Scheme. This is a funded scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities and investment assets.

#### Deloitte response

##### Scottish Teachers' Pension Scheme

We have reviewed the disclosure within the accounts against the Code and noted that it highlights the Teachers' Pension Scheme as meeting the criteria to be accounted for as a Defined Contribution Scheme, as disclosed in note 46 of accounts.

##### Local Government Pension Scheme

We have obtained a copy of the actuarial report produced by Mercer, the scheme actuary, and agreed in the disclosures to Note 47 within the accounts noting no issues. We have also assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.

As at 31 March 2012, the Council has reported the present value of the liabilities exceed the value of the pension assets, giving a deficit of £248.473 million.

We have considered the work carried out by PwC on behalf of Audit Scotland which assessed the competence and objectivity of, and assumptions and approach adopted by, actuaries producing IAS 19 figures in respect of the Local Government Pension Schemes as at 31 March 2012. We concur that the assumptions used appear reasonable and in line with those being used by other organisations with a March 2012 year end.

We have reviewed the assumptions and on the whole, the set of assumptions is slightly towards the prudent end of the reasonable range at 31 March 2012. The assumptions have been set in accordance with generally accepted actuarial principles and are compliant with the accounting standard requirements of IAS19.

We have reviewed the disclosures within the accounts against the Code. No issues were noted.

# Financial statements and corporate governance (continued)

## 3. Our observations on your financial statements (continued)

### Financial ratios

*The Scottish local authority 'Directors of Finance' section agreed in principle that selected financial ratios may be appropriately used or referred to in the Explanatory Foreword. The intention is to support interpretation of the financial statements and an explanation of the authority's financial position and performance. Inclusion of the ratios is not mandatory.*

The Council has chosen to publish all of the selected financial ratios within its Explanatory Foreword, including comparative data for 2010/11. We have tested the published financial ratios and confirmed that they are consistent with our findings on our audit work of the financial statements.

### Statement of Assurance

*Regulations require English, Welsh and Northern Irish authorities to conduct a review at least once in a year of the effectiveness of its system of internal control and include a statement reporting on the review with any Statement of Accounts. "Delivering Good Governance in Local Government" published by CIPFA and SOLACE recommends that the review be reported in an Annual Governance Statement. Scottish local authorities are not subject to such statutory requirements but may adopt them voluntarily. Authorities that do not voluntarily choose to do this shall include a statement on the system of internal financial control with their Statement of Accounts.*

The Council has chosen to publish the wider Annual Governance Statement, entitled the "Statement of Assurance" within its statement of accounts, in accordance with CIPFA/ SOLACE guidance.

The format and content of the statement is consistent with the requirements of the Code and notes that the Chief Internal Auditor has reported that, in his opinion, based on his evaluation of the control environment, reasonable assurance can be placed on the adequacy and effectiveness of the Council's control system in the year to 31 March 2012. The Statement notes that Internal Audit reports highlight areas where improvements can be made, and these areas will be reviewed by the Council in order that best practice can be achieved in all areas of activity. This is consistent with the findings of our audit

We have noted that the draft statement does not include a specific statement that the authority's financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). We have recommended that this be considered for inclusion within the final document.

# Financial statements and corporate governance (continued)

## 3. Our observations on your financial statements (continued)

### Remuneration Report

*Local authorities are required by an amendment to the 1985 Regulations to publish a remuneration report as part of their statement of accounts. Guidance was issued by the Scottish Government with finance circular 8/2011 which is intended to assist authorities in implementing this requirements, and provides a number of sample disclosures.*

*The 2011/12 Code also introduced a new disclosure requirement on Exit Packages.*

The Council has published a Remuneration Report as part of its statement of accounts, in accordance with the amendment regulations. The Remuneration Report provides details of the Council's remuneration policy for its senior councillors and senior employees, and also incorporates the new disclosure on Exit Packages.

We have agreed the data within the Remuneration Report to the Council's ledger, and selected a sample of senior councillors and senior employees and vouched to payroll records. We have also selected a sample of employees included within the exit packages note, and vouched to exit agreements and payroll records. No issues were noted.



# Best value, use of resources and performance

## 4. Financial performance and outlook

	2011/12			2012/13
	Budget £m	Actual £m	Variance £m	Budget £m
Gross Expenditure	541.307	521.664	19.643	547.915
Income	(531.530)	(532.123)	0.593	(547.915)
<b>Surplus/ (Deficit)</b>	<b>(9.777)</b>	<b>10.459</b>	<b>20.236</b>	<b>0.00</b>
Adjustments between accounting basis and funding basis	N/A	(26.782)	N/A	N/A
Transfer to Earmarked Reserves	N/A	12.844	N/A	N/A
<b>Deficit on the Provision of Services</b>	<b>N/A</b>	<b>(3.479)</b>	<b>N/A</b>	<b>N/A</b>

### Current performance

The Council's Comprehensive Income and Expenditure Statement reported a deficit on the provision of services of £3.479 million for the year to 31 March 2012. After adjusting for the difference between accounting basis and funding basis under regulation, the Council reported an increase in the General Fund balance of £10.459 million.

The Council budgeted to use £9.777 million of reserves in order to achieve a balanced budget for the year to 31 March 2012. The final outturn was an in year surplus of £10.459 million, which has been added to the General Fund balance brought forward.

Variances were reported to the Policy and Resources Committee throughout the year, although moved from a projected underspend of £10.719 million at 30 January 2012, as reported to the committee in April 2012, to a final underspend of £20.236 million. Management has recognised that they should have been aware of this likely result earlier in the year, and have undertaken additional work in order to prevent a similar situation occurring in the future. Closer working relations are being developed between the finance teams and the services, and a more risk based approach is being adopted which is resulting in all services recognising that budget variances are likely to occur, but these should be reported at an early stage, consequences discussed and options for action considered. Going forward, a zero basing of budgets is being introduced for key risk areas to ensure that budgets more accurately reflect the expected expenditure. The Scrutiny and Audit Committee are also going to receive a full report at each cycle showing progress against each saving, rather than the exception reporting which has occurred in the past.

# Best value, use of resources and performance (continued)

## 4. Financial performance and outlook (continued)

The £20.236m underspend can be split across services as follows:

Service	2011/12			
	Final Budget £m	Actual Expenditure £m	Over/ (Under) spend £m	Over/ (Under) spend %
Education, Learning & Leisure	248.198	243.640	(4.558)	(1.83%)
Housing and Social work	120.877	117.846	(3.031)	(2.5%)
Joint Budgets	8.855	8.365	(0.490)	(5.53%)
Infrastructure Services	67.642	61.121	(6.521)	(9.64%)
Central Services	57.251	54.709	(2.542)	(4.44%)
Trading Accounts	(2.850)	(3.773)	(0.923)	(32.38%)
Capital Financing Charges and IORB	26.400	23.649	(2.751)	(10.42%)
Transfers to/ from statutory funds	8.002	8.040	0.038	0.47%
Transfer to/ from earmarked reserves	7.504	7.571	0.067	0.89%
Other Central costs/ (savings)	(0.572)	0.496	1.068	186%
<b>Total Expenditure</b>	<b>541.307</b>	<b>521.664</b>	<b>19.643</b>	
Income	(531.530)	(532.123)	(0.593)	(0.11%)
<b>(Surplus)/ Deficit</b>	<b>9.777</b>	<b>(10.459)</b>	<b>(20.236)</b>	

# Best value, use of resources and performance (continued)

## 4. Financial performance and outlook (continued)

### Significant variations from budget included:

- **Education, learning and leisure** reported an underspend of £4.558 million. The main area of underspend was in relation to permanent teachers (underspend of £1.824 million), due to the replacement of teachers on maternity leave or long term sick leave being funded from the Supply Teachers budget (which also reported an underspend due to difficulty in recruiting supply teachers). In addition, there are 9 full time equivalent Early Years Coordinating Teacher vacancies which were not filled. The Council has noted that the actual expenditure was lower than the forecast reported to Committee in April due to the introduction of new national and local agreements, the impact of which was difficult to quantify and only became apparent at the year end. The remainder of this variance is made up of a number of smaller variances.
- **Housing and social work** reported an underspend of £3.031 million. The main area of underspend here was in relation to home care for older people (underspend of £1.019 million) due mainly to vacant posts, a reduction in the purchase of protective clothing and equipment, a reduction in the number of new community alarms purchased, a reduction in repair costs as a result of the repairs service being brought in house and additional income as a result of increased charges for community alarms and telecare equipment. In addition, due to a delay in agreeing the terms and conditions, expenditure on the purchase of an Electronic Homecare Management System as agreed at Policy and Resources Committee on 15 September 2011 did not take place before the year end. Funding for this of £0.620 million has been carried forward to 2012/13 under the end year flexibility scheme. The final outturn was in line with that reported to committee in April.
- **Infrastructure services** reported an underspend of £6.521 million. The main area of underspend include:
  - Waste Disposal underspent by £1.629 million. This was due to a combination of vacant posts, new contract prices being in place and a lot of the general waste being transported direct by the Council rather than by a contractor. Also, the new residual waste contract was not signed by 31 March hence waste to landfill has not reduced from previous years. There were also delays in progressing the development of proposed Household Waste Recycling Centres and increased income from recyclates.
  - Economic Development underspent by £1.246 million. This was due partly to vacant posts not being filled pending a Modernisation Review. The underspend increased further in the last two months of the financial year for a number of reasons including funding awarded to external organisations from the Marketing & Task Force, Business Support and Aberdeenshire Regeneration Fund budgets which had not been claimed by 31 March, delays in projects by Aberdeen City and Shire Economic Future (ACSEF) and the cancellation of a Regional Identity project.

# Best value, use of resources and performance (continued)

## 4. Financial performance and outlook (continued)

- **Corporate services (part of Central Services)** reported an underspend of £1.735 million. An underspend in ICT of £0.577 million was due partly to vacant posts. In addition, a number of projects were approved late in the financial year and could not be completed by the end of March. Integrated Benefits also reported an underspend of £0.688 million due to a higher than forecast recovery of subsidy benefit as a result of an adjustment on one specific group of benefits cases where an overpayment has been identified, but the DWP have agreed that this is down to claimant error and therefore will still attract subsidy.
- **Capital financing charges and interest on revenue balances (IORB)** reported an underspend by £2.751 million. This was due to the reduction in the need to borrow due to further delays in the capital programme and favourable borrowing conditions. The actual outturn was lower than that reported to the committee in April due to a lower than budgeted principal repayments.

A scheme of end year flexibility is in place, which resulted in £6.236 million of the underspend arising as a result of delays in letting contracts being carried forward to the 2012/13 budget. This was approved by the Council at its meeting in June 2012.

# Best value, use of resources and performance (continued)

## 4. Financial performance and outlook (continued)

### Outlook

The Policy and Resources Committee approved a Usable Reserves Policy in April 2012, which agreed to maintain a minimum working balance of £10 million, being 2% of the net annual revenue budget. As part of this policy an approach to allocating residual revenue budget underspends has been agreed, which includes transferring any residual to Invest to Save Fund. As the working balance per the financial statements now sits at £27.863 million, the Council has approved where these additional balances will be spent, which include £6.236 million year-end flexibility, referred to above, £4.250 million for pre school and nursery provision, £3 million to invest in towns and villages and £2.357 million towards affordable housing, replacing schools and care homes.

A budgeted net expenditure of £547.915 million was approved by the Council for 2012/13. This incorporates Scottish Government grant funding which has increased by £3.8 million over the 2011/12 cash position. Additional inflationary and budget pressures have been built into the budget, as detailed in the budget briefings to Councillors in advance of the budget setting process, including £5.9 million due to the implementation of the Scottish Government policies and the current moratorium on school rationalisation. Provisional budgets for 2013/14 through to 2016/17 were also approved at the February 2012 meeting. The 2012/13 budget included savings approved as part of the 2011/12 budget process, agreed by the Council in November 2010.

The 2012/13 non-housing capital programme totalled £78.561 million and the housing capital programme totalled £23.999 million. These are being funded by a combination of borrowing, capital grants, use of capital receipts and finance from revenue.

# Best value, use of resources and performance (continued)

## 5. Other issues

The results of our work on the other issues are set out below:

### Delivery of services with reduced funding

Status ● (green)

#### Background

Aberdeenshire Council needs to be able to demonstrate that it is delivering an effective service for the public and achieving value for money. Given the increasing cost pressures on the Council, in line with all public sector entities, there is an increasing risk that the Council will be unable to continue delivering services at the current level. Working in partnership with other public sector organisations and the third sector will help the Council meet its strategic objectives and to address these needs.

#### Deloitte response

Deloitte has reviewed the Council's process for developing its Corporate, Directorate and Service Savings Plans and how these are monitored to ensure that the Council is meeting its strategic objectives. We have noted that at the Council meeting on 25 November 2010, it was agreed to implement budget savings totalling £51.601 million over the two year period 2011-2013. This decision was reflected in the approved budget in February 2011. From the total approved savings, £28.376 million was allocated to be achieved in 2011/12. Each Service prepared a savings plan showing how each of the allocated savings would be achieved. These have been monitored on a monthly basis by each of the Service Accountants and reported on an exception basis to the Scrutiny and Audit Committee throughout the year. Deloitte has reviewed the monitoring reports produced at 31 March 2012, which confirmed that only £507,000 of the identified savings had not been achieved in the current year.

Deloitte has also noted, as part of our review of Performance Management (see [section 6](#) of this report), that each Service regularly monitors its performance against a set of key performance measures. Performance is reported quarterly to committees.

# Best value, use of resources and performance (continued)

## 5. Other issues (continued)

### Achievement of local and national outcomes from Single Outcome Agreement

Status ● (green)

#### Background

Aberdeenshire Council, as a public body, is open to scrutiny in regards to its stated targets and quality ambitions which are common to all public bodies across Scotland. It is important that Aberdeenshire Council with these ambitions and targets is able to show how these have been achieved. In addition, the Council needs to be able to demonstrate a robust process for linking spend and activities to outcomes achieved for its citizens.

#### Deloitte response

Deloitte has reviewed Aberdeenshire Council's contribution to its stated outcome targets. Aberdeenshire Community Planning Partnership's (CPP) Single Outcome Agreement (SOA) with the Scottish Government builds on the Council's strategic priorities and community plan. It sets out how the Council and the Aberdeenshire CPP will contribute to the governments national outcomes. Each Service within the Council has its own Service Plan. These set out the key objectives for the service and the priorities for service delivery over the three year period. As referred to in [Section 6](#) performance reports are considered by Committee on a quarterly basis.

The SOA Annual Report for 2011/12 is currently being prepared for presenting to the CPP on the 19<sup>th</sup> September. The SOA for 2012/13 has been published, which sets out the national outcomes, Aberdeenshire priorities and local outcomes.

Budgets are currently linked to strategic priorities, which then link with the outcomes detailed within the SOA. This is currently done at a high level, and further work is required to fully align expenditure with specific outcomes. A more strategic, integrated approach to performance management and resource allocation systems is required to ensure that the Council is working collaboratively to achieve its agreed outcomes. To facilitate this, the Council should consider adopting a more advanced Outcome Planning Framework.

# Best value, use of resources and performance (continued)

## 5. Other issues (continued)

Sustainable workforce	Status ● (green)
<b>Background</b>	<p>Given the financial pressures on Aberdeenshire Council to achieve financial balance there is considerable focus on reducing staff and other costs through service redesign and robust vacancy management arrangements. There is a risk that current plans do not deliver a sustainable workforce for the future. There is also a risk that transformation and change management strategies do not deliver anticipated benefit levels.</p>
<b>Deloitte response</b>	<p>A Workforce Strategy is in place for the Council as a whole which covers the following key themes:</p> <ul style="list-style-type: none"><li>• <b>Securing the future</b>, covering profiling &amp; planning and reviewing of service provision;</li><li>• <b>Employees – our most valuable resource</b>, covering recruitment &amp; retention, pay &amp; remuneration and development of workforce; and</li><li>• <b>The best we can be</b>, covering leadership &amp; management, health &amp; well-being and employee relations and engagement.</li></ul> <p>The workforce strategy team work closely with Services to develop Service workplans, which then fit with the Service Planning and Budget process. A workforce planning toolkit is available to assist services in reviewing both current and future workforce needs.</p> <p>The Council also has a Succession Planning Framework where it identifies and reviews key posts. This is reviewed by a Workforce Strategy Steering Group, which includes Heads of Services and more recently some third tier management. Regular reports are provided to the management team and the Policy and Resources Committee. A report to the Committee in April 2012 noted that due to the investment required in terms of time, support and resources to ensure meaningful implementation, succession planning is initially being targeted at progression from head of service or area manager to director and managers to head of service. Once this has been embedded it will be rolled out to lower management levels.</p> <p>We will continue to assess this through our review of the Programme Boards.</p>



# Best value, use of resources and performance (continued)

## 5. Other issues (continued)

### Approach to corporate improvement and performance management Status ● (green)

#### Background

The 2011-2014 Assurance and Improvement Plan (AIP) highlighted that due to the recent changes to the Council's approach to corporate improvement and performance management there remains uncertainty over their effectiveness in delivering improved outcomes for service users. Further changes are planned with a new performance management system is to be implemented early in 2012.

#### Deloitte response

As noted in [Section 6](#), from our work on performance management, Deloitte has noted that the Council has recently introduced a new performance management system, Covalent, which went live in August 2012.

This was highlighted as an area of uncertainty in the Council's 2012-2015 AIP, this will be covered in detail by Audit Scotland as part of its focused Best Value work scheduled for later in 2012. To ensure no duplication of audit effort, we have therefore not reviewed this issue in detail.

### Housing and Council Tax benefit governance and performance Status ● (green)

#### Background

In August 2011, the Accounts Commission published a Section 102(1) report on the performance audit of the Council's Housing and Council Tax Benefit service. This reported that there had been insufficient action within the Council to address matters arising from the initial audit in 2008 and recommended that senior managers must do more to ensure action is taken within agreed timescales. It also noted that Councillors need to ensure they receive better information on service performance and use that information to scrutinise the performance of services such as housing benefits, and hold senior managers to account.

#### Deloitte response

Audit Scotland has completed its follow-up work on the Section 102(1) report and submitted its findings to the Accounts Commission in August 2012. While the Accounts Commission findings have yet to be published, Audit Scotland has noted that actions taken to date have resulted in remedial action for 20 of the 21 risks identified being fully completed. Progress has also been made in addressing the one remaining risk relating to the service's intervention activity, although not sufficiently to improve performance for 2011/12. Audit Scotland also noted that scrutiny of performance has improved over the last year.

As part of the follow-up work, Audit Scotland also considered the Councils awareness of the work required under Welfare Reform. Their report notes that the Council has taken a proactive approach to welfare reform and the implications for staff and local residents.

# Best value, use of resources and performance (continued)

## 5. Other issues (continued)

### Instability of key suppliers Status ● (green)

<b>Background</b>	The current economic climate has been increasingly challenging for all industries. Due to this, a risk has been identified in relation to the stability of key suppliers.
<b>Deloitte response</b>	From discussion with the Council's Head of Procurement, high risk suppliers have been identified by the Central Procurement Unit. The focus is not on the materiality of the contract but on the availability of alternatives if the high risk supplier is unavailable to deliver the contracted service. A balanced scorecard is currently being developed to measure the performance of high risk suppliers and to identify any indicators of instability.

### Industrial relations Status ● (green)

<b>Background</b>	The Council's Corporate Risk Register highlights the deterioration of industrial relations which may result in industrial action as a significant risk to Council service delivery.
<b>Deloitte response</b>	Management has confirmed that each Service has a Business Continuity Plan in place, which incorporates minimum staffing levels for critical activities. Each Business Continuity Plan is tested on a regular basis. Based on these, the Council is satisfied that there would be no significant risk to the service delivery. As most industrial action is short term, the Council does not see itself to be significantly exposed. In addition, arrangements are in place with some housing and social work services which are exempt from taking strike action. The key risk is around teachers as this would impact on all schools, however, there are no current notices of impending strike action.  A review of Risk Management and Business Continuity was carried out by Internal Audit and was reported in August 2011, with no significant issues noted.

# Best value, use of resources and performance (continued)

## 5. Other issues (continued)

### Councillor training

Status ● (amber)

#### Background

In the year to 31 March 2011, only 40 (59%) of councillors could demonstrate that they had met the CPD requirements set out in 'A Guide to the Role and Duties of an Aberdeenshire Councillor'. In addition, only 39 (57%) have completed and returned their training needs assessments, and only 39 (57%) of councillors have a personal development plan in place. The training event on the revised Councillors' Code of Conduct, hosted by the Standards Commission, was poorly attended by councillors. There is therefore a risk that Councillors may not fully understand their responsibilities.

#### Deloitte response

Following the local government elections in May 2012, all newly appointed Councillor have undergone an extensive induction process which was well attended. Various induction and training events have been held at both Service and Area level.

In order to record all Councillors CPD, the Council now has an on-line tool through its intranet, which allows Council officers to update for Councillors who have attended group training sessions, however, the onus is still on the Member to ensure that this record is up to date. Management anticipate that this tool will assist in ensuring councillors are able to demonstrate that they have met the CPD requirements, as approved by Council in 2007.

The Council is also consulting with the Improvement Service (IS) with the view to subscribing to its CPD requirements. The IS Note Books are all available through the Councils intranet for Councillors to access, which provides useful information that they require to perform their duties. Through the IS, a skills checklist is also available which will allow members to develop individual Personal Development Plans. The IS also has a range on e-learning tools which Councillors could be given access to.

We can therefore note that the Council has appropriate procedures in place, however, given that Councillors were only elected in May 2012, it is too early to say what impact this will have.

### Risk management

Status ● (amber)

#### Background

Although a high level community planning risk register is in place, it does not cover the operational risks associated with delivering services through partnership working. Risk registers have yet to be developed for the Council's other significant partnerships. There is therefore a risk that the Council may not have identified and managed all of its operational risks, particularly those associated with partnership working.

#### Deloitte response

Management has confirmed that all the Services have been contacted with details of all the partnerships identified, in order for the Services to confirm that a) the partnership is still in existence and b) that the Council is the lead partner. Once all responses are received, each partnership will be assessed to identify if it is significant, and, if so, a risk register will be developed. While the original timescales for completing this has slipped, management has confirmed that this will be completed by the end of the year.

# Best value, use of resources and performance (continued)

## 5. Other issues (continued)

### Governance model and transformation

Status ● (green)

#### Background

The Council has a number of ongoing transformation projects such as Worksmart and other continuous improvement projects, which are being driven by the need to make significant savings over the next few years. To manage these projects effectively, Programme Boards have been established. To ensure the anticipated business benefits are delivered from these transformation projects, the governance model needs to be operating effectively.

The Business Transformation Programme Board will oversee the following strands of work: Office Accommodation Strategy, Worksmart, Customer Service Points/ Contact Centre Development, Website Transactions, Arcadia Development, Infosmart and Employee Relationship Management.

The Improvement Programme Board will oversee the following strands of work: Kaizen for Daily Improvement, Continuous Improvement activity, self assessment/ evaluation, Corporate Performance, Residents/ Employee Surveys, Best Value 2 and monitor and report on efficiencies and benefits from improvement activities.

#### Deloitte response

Deloitte attended a joint meeting of both Boards to consider and assess the arrangements in place. We have had initial discussions with management providing an overview on the key points noted, which are being taken on board in further development of the Boards.

# Best value, use of resources and performance (continued)

## 6. Performance Reporting and Statutory Performance Indicators (SPIs)

The Council has a statutory duty to make arrangements for reporting to the public on the outcome of the performance of their functions as set out in the Local Government in Scotland Act 2003. Statutory guidance on Best Value requires local authorities to manage performance effectively with a view to continuous improvement. This should reflect the local context in which they operate and their own particular priorities.

On an annual basis, the Policy and Resources Committee agrees the prioritisation of the statutory and local performance indicators according to their contributions to the Council's strategic priorities. As part of the report that was approved in February 2012, it was agreed that the Council would refocus performance reporting to Committees and introduce exception performance reporting. This would therefore allow Committees to focus their discussion on aspects of performance that require intervention.

Service performance reports are submitted to each Committee on a quarterly basis, and are also available publicly through the Council's website.

The Council has recently gone live with its new performance management system, Covalent, with the first reports developed from the new system being presented to the Infrastructure Services Committee in August 2012. Exception reports are provided as part of the Committee papers, however, full reports showing all indicators for the Service are available to Members through the ward pages of the intranet. Each indicator now must have a measure and target, with trend information shown over a period of time. Reports to Committee show both positive and negative exceptions to ensure that the reporting is balanced. Members are also to be provided with access to the Covalent system, so that they can monitor performance on a real time basis.

Deloitte has considered the Council's arrangement for collecting, recording and publishing accurate and complete information. As part of this work, we have tested a sample for completeness and accuracy. As a result of this testing, three indicators were required to be amended as they were found to be incorrect. We therefore recommend that similar testing is performed by Council staff in future years to identify any anomalies before they are submitted for audit.

The Council has submitted the specified statutory performance indicators to Audit Scotland by the deadline of 31 August 2012. We have also been advised that the annual Public Performance Report will be published, following approval by the Policy and Resources Committee in September 2012. An advert will be published in the local press to publicise the publication of the report, and printed copies will be available in libraries and area offices across Aberdeenshire, as well as being available electronically through the Council's website.

# Best value, use of resources and performance (continued)

## 7. Audit Scotland National performance reports

As part of our audit we have completed our review of how the Council has responded to the following national performance reports: “Scotland’s public finances: addressing the challenges”, “A review of Community Health Partnerships”, “Transport for Health and Social Care” and “Modernising the Planning System” assessing:

- The level of discussion of the report at Committee Level;
- If the audited body completed a self assessment against the relevant findings;
- Details of any action plan flowing from this self assessment; and
- Form an opinion over the audited body response to the report findings.

In addition we have performed focused follow up on ‘*Maintaining Scotland’s roads*’. This work has been completed and our detailed findings from these reviews were included in separate reports to the Scrutiny and Audit Committee in June 2012 with a summary of these detailed below.

- The Council responded promptly and positively following publication of the report by Audit Scotland in February 2011.
- Plans are in place to drive road maintenance activities. The Council is currently developing a comprehensive road asset management plan in accordance with the Society of Chief Officers of Transportation in Scotland (SCOTS) road asset management project and it anticipates that the first edition will be ready to be reported to Infrastructure Services Committee in the autumn of 2012.
- The Council populates the SCOTS template comprising core, secondary and statistical indicators and submits this to SCOTS on an annual basis.
- The Council has undertaken a number of initiatives to improve value for money in its road maintenance service.

# Best value, use of resources and performance (continued)

## 8. Risk management and internal control systems

Our audit approach in relation to internal control was set out in our 'Briefing on audit matters' and our planning report circulated to you on 8 February 2012. Following the completion of our audit we will provide a separate management letter but raise matters of significance to your attention within this report.

### Key controls over significant risks

In **Section 1** we discussed the identified significant audit risks. For each of these significant audit risks we have assessed the design and implementation of internal controls in each of those areas, summarised below.

Risk 1 – Expenditure recognition	Deloitte observations	2012
<b>Key controls are in place through the purchase ordering, receipt of goods and invoice matching process.</b> <b>Budget monitoring reports are reviewed on a regular basis.</b>	Through the financial ledger, all invoices are matched to purchase orders and delivery notes prior to making payment. On a monthly basis, all budget holders are provided with statements of expenditure against budget, which are reviewed and discussed with finance staff to identify any areas of risk. Reports are also provided to the Policy and Resources committee at each committee cycle.	We have assessed the design and implementation around authorisation and recording expenditure. We have reviewed the monitoring reports during 2011/12 confirming that this is monitored and reviewed on a regular basis. The projected expenditure reported to committee in April was significantly different from the final outturn, therefore there is scope for improving future projections.

# Best value, use of resources and performance (continued)

## 8. Risk management and internal control systems (continued)

Risk 2 – Revenue recognition (council tax and housing rent)	Deloitte observations	2012	
<p><b>Council Tax system is reconciled to the Assessor records on a regular basis. Housing Rents system is uploaded with approved rent levels on an annual basis, and adjusted for any houses sold in the year.</b></p>	<p>The Council Tax system is regularly reconciled to the Assessor records.</p> <p>The Housing Rent system is reconciled to the number of houses owned by the Council, held on the Fixed asset Register.</p> <p>Provisions for bad debts are calculated by the finance team at the year-end.</p>	<p>We have reviewed the reconciliations during 2011/12 confirming that they are reviewed on a regular basis.</p> <p>The provisions for bad debts are based on a historical percentage rather than actual collection rates. We have therefore recommended that this methodology be reviewed.</p>	<p>● (red)</p>
Risk 3 – Asset register system depreciation calculation	Deloitte observations	2012	
<p><b>Revaluation reserve adjustments for depreciation are reviewed as part of final accounts close down process.</b></p>	<p>Revaluation reserve adjusted at the period end for difference between fair value and historical cost depreciation. The adjustment is reviewed as part of final accounts close down process.</p>	<p>We have reviewed the final accounts process and found that the data provided by the software is not reliable.</p>	<p>● (red)</p>




# Best value, use of resources and performance (continued)


## 8. Risk management and internal control systems (continued)

Risk 4 – Property, plant and equipment valuation	Deloitte observations	2012	
<p><b>Revaluations have been carried out by an independent, qualified individual.</b></p>	<p>A rolling programme of external valuations has been performed by the Council internal valuers. Journals are processed by finance staff based on information received, which is then reviewed as part of final accounts process.</p>	<p>We have reviewed the final accounts process and confirmed that data from internal valuer has been used.</p> <p>Given that a material audit adjustment is required due to an error in the valuation, additional controls should be put in place to ensure that the data provided by the valuer is in accordance with the Code.</p>	<p>● (red)</p>
Risk 5 – Capital accounting reserves	Deloitte observations	2012	
<p><b>Reserve adjustments are reviewed as part of final accounts close down process.</b></p>	<p>Reserves are adjusted at the period end for statutory adjustments and other movements such as revaluation. The general fund movements and all other movements are reviewed as part of final accounts close down process.</p>	<p>We have reviewed the final accounts process and confirmed that a review was undertaken.</p>	<p>● (green)</p>
Risk 6 – Recording of provisions	Deloitte observations	2012	
<p><b>Provisions are based on information and assumptions provided by HR and other Council departments.</b></p>	<p>Provisions are for identified legal or constructive obligations. These are identified through the year-end close down procedures through discussions between Service Accountants and other department within the Council, particularly HR.</p>	<p>We have reviewed correspondence from the HR team and other relevant responses, and confirmed that this has been used to calculate the provisions within the financial statements.</p>	<p>● (green)</p>

# Best value, use of resources and performance (continued)


## 8. Risk management and internal control systems (continued)

Risk 7 – Management override of controls		Deloitte observations	2012
<b>Journal entries are approved and a detailed reviewed performed of monthly accounts</b>	Controls are in place over financial reporting and closing procedures, recording and processing of journals and segregation of duties which prevent the management override of controls. In addition a detailed review is performed each month on the results through the financial monitoring report.	<p>We have tested a judgmental sample of journal entries posted in the year and confirmed the appropriateness of the journals posted. We noted from our sample testing that staff at principal accountant level and above can prepare and authorise the same journal without any independent review. This is not considered best practice and we would recommend that there should be an independent review of all journals.</p> <p>We have also reviewed the financial monitoring reports for 2011/12 confirming that this is monitored and reviewed on a regular basis.</p>	 (amber)

 No issues noted  
(green)

 Satisfactory – minor observations only  
(yellow)

 Requires improvement  
(amber)

 Significant improvement required  
(red)

# Best value, use of resources and performance (continued)

## 8. Risk management and internal control systems (continued)

### Internal control observations

In addition to the recommendations provided in relation to significant audit risks, we also identified a number of risk management and control observations, the most significant of which are detailed below.

#### Bank Reconciliations

Priority – ● (red)

##### Description

The key bank reconciliations were not fully reconciled at the year-end. There were a number of adjustments which were posted in the new year, resulting in further journals being processed. This has resulted in a significant audit adjustment of £3.6 million in relation to the Council Tax and Business Rates accounts. In addition, there were still a number of items (net value £240,000) which were recorded in the Council's bank account but not recorded in the ledger, therefore omitted from the financial statements.

##### Recommendation

The bank reconciliation process should be reviewed to ensure that all reconciling items identified as part of the bank reconciliation process are cleared on a timely basis, and in particular at the year-end, only year-end timing differences as a result the ledger transactions not yet reaching the bank should be included as reconciling items.

#### Bad debt provision

Priority – ● (red)

##### Description

Bad debt provisions were found to have been calculated based on a historic percentage of amount collectable, and make no allowance for the actual collection rates achieved by the Council.

##### Recommendation

The methodology adopted for calculating all bad debt provisions should be reviewed to ensure that they are based on robust and up to date information. The bad debt provision should be assessed against each year in light of actual collection rates and adjusted accordingly.

# Best value, use of resources and performance (continued)

## 8. Risk management and internal control systems (continued)

### Internal control observations (continued)

#### Valuations Priority – ● (red)

<b>Description</b>	We identified a material audit adjustment due to the valuer providing data in relation to the sheltered housing stock which was not valued in accordance with the Code.
<b>Recommendation</b>	Finance staff should undertake a review of all data provided by the valuer to ensure that it meets the requirements of the Code.

#### Authorisation of Journals Priority – ● (amber)

<b>Description</b>	We noted from our sample testing that staff at accountant level and above can prepare and authorise the same journal without any independent review. This is not considered best practice. Given the error identified within the bank reconciliations, we consider that an independent review of journals should be undertaken to ensure that they are correct before processing.
<b>Recommendation</b>	Procedures should be updated to ensure that the same person cannot prepare and authorise the same journal. An independent review should be incorporated into the process.

# Best value, use of resources and performance (continued)

## 8. Risk management and internal control systems (continued)

### Internal control observations (continued)

<b>Asset register depreciation calculation</b>		<b>Priority – ● (red)</b>
<b>Description</b>	The Asset Register System (Logotech) used by the Council does not calculate the depreciation on assets revalued in the year or the movements on the Revaluation Reserve correctly. The Council is therefore developing a manual calculation to determine whether an audit adjustment is required.	
<b>Recommendation</b>	The Council should liaise with the software provider to ensure that the system can produce reliance data to ensure that the financial statements are accurate and to prevent the need for manual calculations.	
<hr/>		
<b>Budget projections</b>		<b>Priority – ● (red)</b>
<b>Description</b>	The Council reported an underspend against budget of £20.236 million at the year-end, despite reports to Committee in April projecting an underspend of only £10.719 million.	
<b>Recommendation</b>	The Council should review its processes for determining projected expenditure to ensure that accurate reports are provided to the Committee. The basis of the budget should also be reviewed to ensure that it more accurately reflects the expected expenditure.	
<hr/>		
<b>Performance Information</b>		<b>Priority – ● (amber)</b>
<b>Description</b>	As part of our work in considering the Council's arrangements for collecting, recording and publishing accurate and complete performance information, we identified from our sample testing that three of the indicators needed to be amended as they were found to be incorrect.	
<b>Recommendation</b>	The Council should incorporate an analytical review as part of its quality control checks to identify any anomalies before the data is submitted.	

# Best value, use of resources and performance (continued)

## 9. National fraud initiative (NFI)

NFI brings together data from all bodies across the public sector to help identify and prevent frauds against the public sector including housing benefit and payroll frauds.

The Benefits Manager has assumed responsibility for the NFI exercise, with responsibility for investigating the matches and resolving potential issues

Management chose to investigate all matches rather than focussing on recommended matches or a particular type of match. At 31 August 2012 all matches have been reviewed with a small number still being investigated. The majority of the matches received related to Housing Benefit claimants.

We have also confirmed that the questionnaire submitted to Audit Scotland in 2011 remains valid.

As at 31 August 2012, four frauds amounting to £27,000 in total have been identified through the 2010/11 NFI exercise, all of which relate to Housing Benefit claimants.

# Best value, use of resources and performance (continued)

## 10. Grants

As part of our audit we have completed our audit of the following grant claims/ returns by the audit deadlines set by Audit Scotland.

- Education maintenance allowance signed off 31 July 2012
- Safety camera partnership grant signed off 31 July 2012
- Criminal justice social work services grant claim signed off 31 August 2012

Work is currently ongoing in respect of the housing and council tax benefit subsidy claim, with our initial sample testing complete, and additional testing now in progress. As noted in our planning paper, HBCOUNT continues to be in place for 2011/12 (and beyond) for auditing benefit subsidy claims despite the uncertainty regarding the future of the Audit Commission. We do not anticipate any difficulties in meeting the deadline of 30 November 2012.

Work on the Non Domestic Rates Income Return is due to commence in October to ensure that the February 2013 deadline is met.

# Other

## 11. Independence

As part of our obligations under International Standards on Auditing (UK & Ireland) and the Code of Audit Practice issued by Audit Scotland and approved by the Auditor General, we are required to report to you on the matters listed below.

Confirmation	
<b>We are independent</b>	We confirm that we comply with APB Revised Ethical Standards for Auditors and that, in our professional judgement, we are independent and our objectivity is not compromised.

Non-audit services	
<b>No non audit services provided in the year</b>	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the company's policy for the supply of non audit services or of any apparent breach of that policy. There were no non audit services fees charged in relation thereto by Deloitte in the period from 1 April 2011 to 31 March 2012.

Fees	
<b>Audit fee agreed within indicative range</b>	The audit fee for the year has been agreed at £430,000 (inclusive of VAT) and is within the indicative fee range set by Audit Scotland. This fee incorporates the contribution to Audit Scotland covering your organisation's allocation of the costs of, among other things: <ul style="list-style-type: none"><li>• the programme of national performance audits as set out in the recently published forward programme;</li><li>• functions that support the local audit process (e.g. technical support and co-ordination of the National Fraud Initiative);</li><li>• Audit Scotland's other support costs; and</li><li>• auditors' travel and subsistence expenses.</li></ul>

Relationships	
<b>There are no business or personal relationships to report</b>	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on our objectivity and independence. We are not aware of any relationships which are required to be disclosed.



# Other (continued)

## 12. Responsibility statement

The Statement of Responsibilities of Auditors and Audited Bodies issued by Audit Scotland, within the Code of audit practice, explains the respective responsibilities of auditors and of the audited body and this report is prepared on the basis of, and our audit work is carried out, in accordance with that statement.

This report should be read in conjunction with the "Briefing on audit matters" circulated to you within our audit plan dated 8 February 2012 and sets out those audit matters of governance interest which have come to our attention during the planning of our audit to date. Our audit is not designed to identify all matters that may be relevant to the board and our final report on the audit will not necessarily be a comprehensive statement of all deficiencies which may exist in internal control or of all improvements which may be made.

This report has been prepared for the Council, as a body, and we therefore accept responsibility to you alone for its contents. We accept no duty, responsibility or liability to any other parties, since this report has not been prepared, and is not intended, for any other purpose.

## Deloitte LLP

Chartered Accountants  
Glasgow

19 September 2012

# Appendices

## 1 - Audit adjustments

### Corrected misstatements

We report all individual identified recorded audit adjustments in excess of £112,000 adjusted by management in the table below.

		Credit/ (charge) to current year CIES £'000	Increase/ (decrease) in Net Assets £'000	Increase/ (decrease) in prior year Net Assets £'000
Revaluation adjustment to Sheltered Housing, within Property, Plant and Equipment	[1]	(18,373)	(48,959)	Nil
Revaluation adjustment to new build Council Houses	[2]	(4,278)	(4,278)	Nil
Revaluation reserve write down	[3]	Nil	Nil	Nil
Bank account	[4]	Nil	Nil	Nil
Assets held for sale	[5]	Nil	Nil	Nil
Equal pay provision	[6]	Nil	Nil	Nil
Audit adjustments to Police and Fire – impacting on Group only	[7]	(371)	371	Nil
<b>Total</b>		<u>(22,280)</u>	<u>(52,866)</u>	<u>Nil</u>

[1] An adjustment of £48.959 million was required to the value of the Sheltered Housing, within the Council Dwellings category of Property, Plant and Equipment. This has arisen due to the Council's internal valuers omitting to apply a discount factor to reflect Existing Use Value – Social Housing, as required under the Code. A discount factor of 51% was applied to the General Housing Stock, representing the difference between public and private rental sector. Management has confirmed that there is no separate private rental sector for Sheltered Housing, therefore this discount of 51% should also apply. The gain of £30.586 million originally recognised in the Revaluation Reserve has been reversed and a net downward revaluation is charged to the CIES of £18.373 million. This is reversed out through the Movement in Reserves Statement (MIRS) and has no impact on the General Fund balance.

[2] An adjustment of £4.278m was required to apply the above discount factor to the Council new build properties, which had been incorrectly brought onto the Balance Sheet at full value. While this results in a net charge to the CIES, this is reversed out through the MIRS and therefore has no impact on the General Fund balance.

# Appendices (continued)

## 1 - Audit adjustments (continued)

[3] An adjustment of £5.782 million was required due to errors in the calculation of the Revaluation Reserve write-down. The system calculation omitted to calculate the write down on the Council Dwelling revaluations, any upward revaluations in the current year and errors were also noted in the brought forward balance. The Council manually recalculated the adjustment for the Council Dwellings (£4.166 million), the assets with upward revaluations in the year (£0.115 million), and based on a sample of other assets included in the Revaluation Reserve, an extrapolated error of £1.501 million was calculated. As this adjustment is a movement between the Revaluation Reserve and the Capital Adjustment Account, this has no impact on the overall net assets.

[4] An adjustment of £3.6 million was required to correct the bank balance. This has arisen due to the Council incorrectly adjusting the bank balance within the Council Tax and Business Rates accounts against the Debtor, rather than correctly showing as a bank balance at the year-end. As this is reclassification within the Balance Sheet, this has no impact on the overall net assets.

[5] An adjustment of £2.011 million was required to reclassify Assets Held for Sale to current assets. In accordance with the Code, as these assets are due to be sold within 12 months of the year-end, these should be classified under the current assets heading of the Balance Sheet. A similar adjustment of £7.280 million was required to the Common Good Funds Balance Sheet to reclassify this asset under the current assets heading. As these are reclassifications within the Balance Sheet, they have no impact on the overall net assets.

[6] £760,000 of the provision for equal pay has been classified as current, with the remainder being classified as non-current. However, there is no evidence to support this method of apportionment, and based on previous years payments, no amounts were settled in the past year. The full provision should therefore be classified as non-current. As this is reclassification within the Balance Sheet, this has no impact on the overall net assets.

[7] Audit adjustments totalling £371,000 were made to the Grampian Joint Fire and Rescue Board and Grampian Joint Police Board financial statements. These adjustments have been processed through the Council's group accounts.

We have not identified any disclosure misstatements from our work performed.

# Appendices (continued)

## 1 - Audit adjustments (continued)

### Uncorrected misstatements

We report all individual identified recorded audit adjustments in excess of £112,000 adjusted by management in the table below.

		Credit/ (charge) to current year CIES £'000	Increase/ (decrease) in taxpayers' equity £'000	Increase/ (decrease) in prior year taxpayers' equity £'000
Bank account – amounts in bank not in ledger	[1]	(240)	240	Nil
Utility bills over-accrual	[2]	(202)	202	Nil
Council Tax bad debt provision over-accrual - 1994-2007 (factual misstatement)	[3]	(1,558)	1,558	Nil
- 2008-2012 (judgemental misstatement)	[3]	1,608	(1,608)	Nil
Business rates creditor	[4]	Nil	Nil	Nil
<b>Total</b>		<b>(392)</b>	<b>(392)</b>	<b>Nil</b>

[1] As part of the bank reconciliation process, a net income amount of £240,000 was noted as being recorded within the bank but not included within the ledger.

[2] As part of our testing of accruals we noted that utility bills have been accrued in full, although do not relate in their entirety to the financial year 2011/12. Management has confirmed that this has been the practice in previous years, therefore there is likely to have been a corresponding under accrual in the opening balance.

[3] Our testing of the Council Tax bad debt provision identified an over-accrual for the period 1994 to 2007, due to the Council providing for more debt than is currently outstanding. This can be compensated by a judgemental under accrual for the period 2008 to 2012, based on the Councils average collection rates for the ten years 2001 to 2010, resulting in a net misstatement of £50,000. We have recommended that the Council review its methodology for calculation its bad debt provision.

[4] As the Council is acting as an agent for the Scottish Government to collect Business Rates, the only Balance Sheet amount should be amounts due to/ from the Scottish Government. The Council had incorrectly included both a creditor and a debtor. These are required to be netted off, which resulted in both the creditor and debtor balance being overstated by £773,000. As this is a reclassification within the Balance Sheet, the overall impact on the net assets is nil.

# Appendices (continued)

## 2 - Representation letter

Deloitte LLP  
Lomond House  
9 George Square  
Glasgow  
G2 1QQ

Our Ref: AC/2012

***Date: at time of signing***

Dear Sirs,

This representation letter is provided in connection with your audit of the annual financial statements (“the financial statements”) of Aberdeenshire Council for the year ended 31 March 2012 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view of the financial position of Aberdeenshire Council as of 31 March 2012 and of the results of its operations, other recognised gains and losses and its cash flows for the year then ended in accordance with proper practices as set out in the Code of Practice on Local Authority Accounting in the United Kingdom. We are aware that it is an offence to mislead a Council auditor.

As Responsible Financial officer and on behalf of the Council, I confirm to the best of my knowledge and belief, the following representations.

### *Financial statements*

1. I understand and have fulfilled my responsibilities for the preparation of the financial statements in accordance with proper practices as set out in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code), which give a true and fair view, as set out in the terms of the audit engagement letter.
2. We have provided you with all relevant information and access as agreed in the terms of the audit engagement letter with Audit Scotland. We acknowledge our responsibilities for the design, implementation and operation of internal control to prevent and detect fraud and error.
3. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
4. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of IAS24 “*Related party disclosures*”

5. All events subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment of or disclosure have been adjusted or disclosed.
6. The effects of uncorrected misstatements and disclosure deficiencies are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements and disclosure deficiencies is detailed in the appendix to this letter.
7. We confirm that the financial statements have been prepared on the going concern basis. We do not intend to liquidate the Council or cease operating as we consider we have realistic alternatives to doing so. We are not aware of any material uncertainties related to events or conditions that may cast significant doubt upon the Council's ability to continue as a going concern. We confirm the completeness of the information provided regarding events and conditions relating to going concern at the date of approval of the financial statements, including our plans for future actions.
8. We have considered the valuation of the Council's Property, Plant and Equipment, and are not aware of any circumstances indicating volatility in asset values requiring a revaluation in the current year
9. With respect to the revaluation of properties in accordance with the Code:
  - a) the measurement processes used are appropriate and have been applied consistently, including related assumptions and models;
  - b) the assumptions appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity where relevant to the accounting estimates and disclosures;
  - c) the disclosures are complete and appropriate.
  - d) there have been no subsequent events that require adjustment to the valuations and disclosures included in the financial statements.
10. We confirm that we consider that depreciated historic cost is an appropriate proxy for the fair value of non-property assets, and are not aware of any circumstances that would indicate that these assets require revaluation.
11. We confirm that the provisions included within the financial statements in respect of equal pay and voluntary severance are our best estimate of the liability due by the Council.
12. We confirm that the liability in respect of the two PFI contracts are based on the financial models for each of these schemes, and we have taken reliance on the model developed by PWC/ CIPFA to determine the accounting entries required.

*Information provided*

13. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

14. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.
15. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
16. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
17. We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects Aberdeenshire Council and involves:
  - (i). management;
  - (ii). employees who have significant roles in internal control; or
  - (iii). others where the fraud could have a material effect on the financial statements.
18. We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.
19. We are not aware of any actual or possible instances of non-compliance with laws and regulations.
20. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.
21. No claims in connection with litigation have been or are expected to be received.
22. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.
23. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.
24. I confirm that I have appropriately discharged my responsibility for the regularity of transactions.

We confirm that the above representations are made on the basis of adequate enquiries of management and staff (and where appropriate, inspection of evidence) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

Signed as Responsible Financial Officer, and on behalf of the Council

# Appendices (continued)

## 3 – Additional resources available to you

### Additional information on current and future technical developments

#### IASPlus

The IAS Plus website, maintained by Deloitte, provides the most comprehensive information on the Internet about international financial reporting. It is aimed at accounting professionals, businesses, financial analysts, standard-setters and regulators, and accounting educators and students. The site, which is totally free of charge, has a broad array of resources about the International Accounting Standards Board, International Financial Reporting Standards, and international accounting and auditing in general. It includes:

- Summaries of all IASB standards and interpretations;
- Background on all IASB and IFRIC agenda projects plus summaries of all IASB and IFRIC meetings;
- Comparisons of IFRSs and various local GAAPs;
- Updates on national accounting standards development in around 80 countries and regions throughout the world; and
- Free e-learning modules for each IAS and IFRS – made available at no charge in the public interest.

The site is available to browse at any time; alternatively you can subscribe to e-mail alerts and newsletters by going to <http://www.iasplus.com/subscribe.htm>.

#### Our range of publications

Our iGAAP books are available to our clients electronically and in hard copy. These include our major manuals providing comprehensive, practical guidance; model annual report and financial statements; and our major text on financial instruments providing in depth support to preparers and auditors in this challenging area.

Our range also includes quarterly iGAAP newsletters providing a roundup of recent developments. iGAAP and ukGAAP alerts are issued whenever a new exposure draft or standard is issued.

#### Stay tuned online: Internet-based corporate reporting updates

The Deloitte UK Technical Team run a series of internet-based financial reporting updates, aimed at helping finance teams keep up to speed with IFRS, UK GAAP and other reporting issues.

Each update lasts no more than one hour, and sessions are held three times a year, at the end of March, July and November. Recordings of past sessions are available via [www.deloitte.co.uk/audit](http://www.deloitte.co.uk/audit).

#### Audit podcasts

Our leading experts provide you with a short discussion of new IFRS standards and practical insights. These can be accessed via our website, [www.deloitte.co.uk/audit](http://www.deloitte.co.uk/audit). Alternatively, you can subscribe to our podcasts via iTunes – just search for Deloitte IFRS.



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