



Final Report to the Scrutiny
and Audit Committee and the
Controller of Audit on the
2012/13 Audit



9 September 2013

Council Members
Aberdeenshire Council
Woodhill House
Westburn Road
Aberdeen
AB15 5GB

Controller of Audit
Audit Scotland
110 George Street
Edinburgh
EH2 4LH

9 September 2013

Dear Sirs

We have pleasure in setting out in this document our final report to the Scrutiny and Audit Committee of Aberdeenshire Council for the year ended 31 March 2013, for discussion at the meeting scheduled for 18 September 2013. This report covers the principal matters that have arisen from our audit for the year ended 31 March 2013.

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 number of audit adjustments have been identified,. In particular, a number of errors were identified in the valuations performed by the Council's internal valuer resulting in the property, plant and equipment being overstated by £4.76 million. In addition, errors were identified in the Council Tax debtor and bad debt provision calculations resulting in the debtor being overstated by £8.9 million and the bad debt provision overstated by £6.3 million. This has resulted in a net additional charge to the general fund of £2.6 million. Each of these adjustments have been corrected in the final financial statements.
- 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.

Yours faithfully



Jim Boyle
Senior Statutory Auditor

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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

The big picture

The big picture

Our audit is nearly complete. A number of adjustments and issues have arisen, which have all been satisfactorily resolved.

- Our work is **nearly complete** and we remain on timetable to issue an unmodified opinion on 18 September 2013. However, there are a number of audit procedures that require to be completed between the time of writing and our signing of the financial statements. The main procedures that require to be completed are:
 - Receipt of updated financial statements to reflect all agreed audit adjustments;
 - Receipt of audited financial statements from the associate entities included within the group financial statements;
 - Management to provide explanations and supporting documentation for a number of disclosure items;
 - Completion of audit procedures on the cash flow statement upon receipt of updated financial statements;
 - Our review of events since 31 March 2013; and
 - Completion of our final quality reviews.
- This report incorporates both our findings on the financial statements audit and the work from our wider role under the Code of Audit Practice covering best value, use of resources and performance.
- A number of issues and audit adjustments have been identified, which are detailed in Section 2 and Appendix 1.
- From our review of the property, plant and equipment valuations, we identified a number of issues around the methodologies and assumptions applied resulting in significant audit adjustments being processed, amounting to £4.76 million. We have recommended that the Council's valuation team should ensure that they are fully appraised of current valuation methodologies and best practice, in particular the IFRS based CIPFA Code of Practice.
- A material audit adjustment was processed due to Council Tax debtor balance being overstated by £8.9 million and the associated bad debt provision being overstated by £6.3 million, which has resulted in an additional charge to the General Fund of £2.6 million.
- A misstatement of £1.9 million was identified as a result of errors in the bank reconciliation process. This follows similar errors identified in the 2011/12 audit, therefore we have recommended that a review of the bank reconciliation process be carried out to ensure that similar errors do not recur.

The big picture (continued)

Our audit is nearly complete. A number of adjustments and issues have arisen, which have all been satisfactorily resolved.

- Our work has also highlighted some **disclosure deficiencies** which are detailed in Appendix 1.
- A number of mis-classifications were identified in the disclosure of Creditors and Debtors, and within the CIES disclosure headings.
- Given the number of errors that have been identified as part of the audit, we would have expected a number of these to be picked up as part of the Council's own internal review process. While detailed analysis is performed on income and expenditure items, limited analytical review was performed on the Balance Sheet prior to the accounts being published. This is an ideal tool for identifying potential anomalies in the accounts. We therefore recommend that such procedures are implemented for future years.
- Some observations have been identified in relation to the financial close and reporting process and we believe there to be scope for improvement. Our controls findings have been included within Section 5 of this report.
- We believe the front half of your annual report is consistent with the financial statements and is in line with the requirements of the Code, however, there is scope to reduce the level of detail disclosed.
- We have made one change to our audit plan submitted to the Scrutiny and Audit Committee in January 2013. Accounting for Landfill Sites has been added as a significant risk as a result of the area being highlighted for attention across all councils by the Audit Scotland.
- We did not identify any instances of fraud that have not been reported to you. See appendix 3 for details of fraud investigations.
- A copy of the representation letter to be signed on behalf of the Council has been included at Appendix 4 of this report.
- 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 (See Appendix 2 for further detail).
- We were informed by the work of the internal auditors in relation to key financial controls to shape our audit procedures and approach.

Significant audit risks

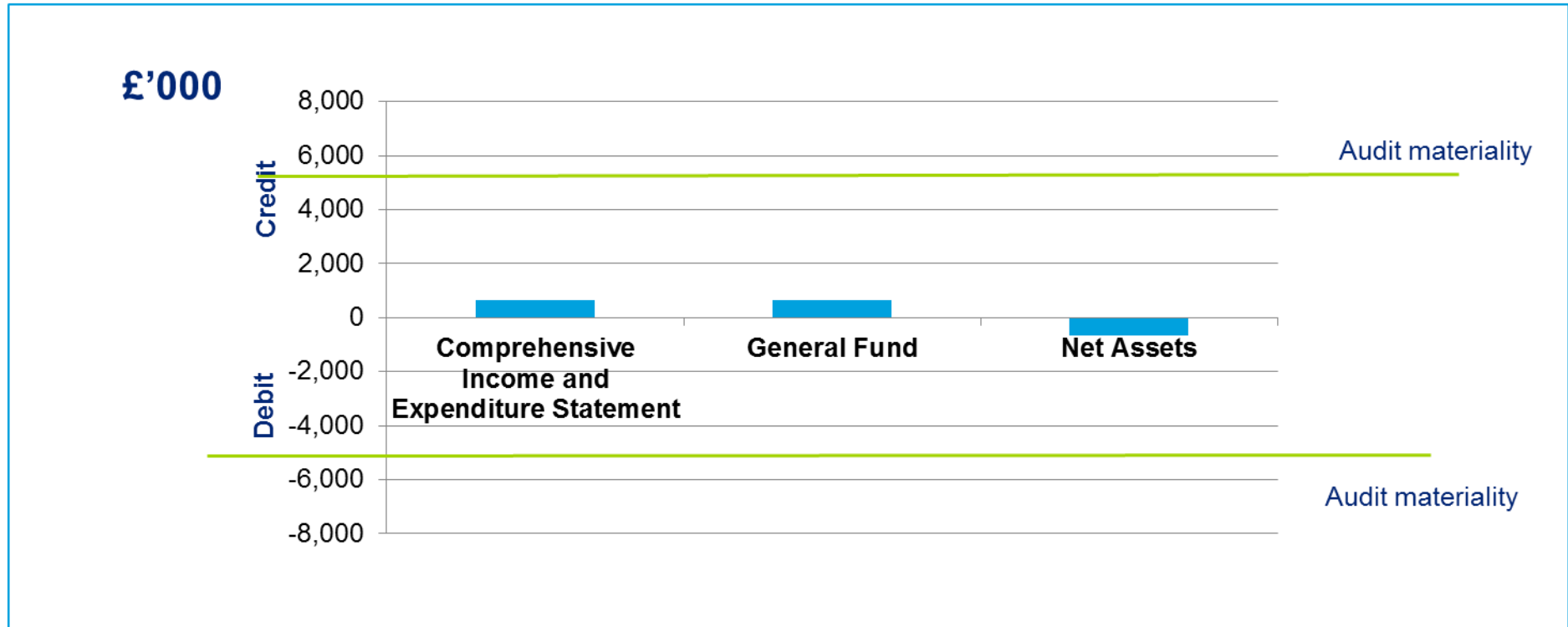
Summary of key audit risks:

Significant audit risk	Status
Property, plant and equipment valuation	Material misstatement or recommendation identified
Asset Register System	Minor misstatement or recommendation identified
Bad Debt Provision	Minor misstatement or recommendation identified
Achievement of Budgets	No issues arising
Bank Reconciliations	Minor misstatement or recommendation identified
Provisions	Minor misstatement or recommendation identified
Revenue recognition – completeness of income	Minor misstatement or recommendation identified
Management Override of Controls	No issues arising
Capital Accounting Reserves	No issues arising

Key
No issues arising
Minor misstatement or recommendation identified
Material misstatement or recommendation identified

Materiality and uncorrected misstatements

Uncorrected misstatements are significantly below audit materiality



Final materiality based on year end balances has been set at £5.7 million. We report to the Scrutiny and Audit Committee all uncorrected misstatements above £114,000.

We will obtain written representations from the Council confirming that after considering all uncorrected items, both individually and in aggregate, in the context of the consolidated financial statements taken as a whole, no adjustments are required.

Significant audit risks and other matters

Summary of significant audit risks and other matters

Understanding the subjective judgements and estimates

The risk table below illustrates the key audit risks focused upon where Deloitte identified areas which involved the highest level of judgement and impact on the financial statements.

	← Acceptable range →														
Property, plant and equipment (PPE) valuation	Less prudent													More prudent	<p>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. We have considered impairment for those assets not included in the current year valuation and no issues were noted.</p> <p>As noted from pages 12 to 15 we have identified a number of audit adjustments in relation to the valuation of PPE, which have all been adjusted for in the final financial statements, which bring the valuation estimates to mid point of an acceptable range.</p>
Bad debt provisions															<p>The Council Tax bad debt provision is based on a 100% provision for all debts over 4 years old, with a 1% provision for debts raised within the last 4 years. As the average collection rate is 99%, the Council is taking a more prudent approach for older years.</p> <p>For Housing Rent and general debtors, the Council has provided 90% for all debts over 1 year old, 75% for debts over 181 days old, and smaller levels for more recent debts. There is evidence that income is still being received for debts over 4 years old, therefore the Council is taking a more prudent approach.</p>

Summary of significant audit risks and other matters (continued)

Understanding the subjective judgements and estimates (continued)

	← Acceptable range →															
Revenue recognition – completeness of income (Council Tax and Housing Rents)	Less prudent															<p>Council Tax income is based on net Council Tax levied to residents, after deducting discounts, reductions and allowance for bad debt.</p> <p>Housing Rents income is based on the gross rent levied in accordance with the rent levels approved as part of the 2012/13 budget process.</p>
Equal pay provision																<p>Provision for equal pay claims based on information provided by the Council's HR team, being the total number of outstanding claims valued at the average value of claims paid in previous years.</p> <p>From our sample testing, we identified a potential over-provision of £349,000, based on the actual rates for comparator posts in comparison with those used in the Council's calculation. This has been noted as an uncorrected misstatement in Appendix 1.</p>
Voluntary severance provision																<p>No provision has been made for staff who had agreed to take voluntary severance at 31 March 2013. From our testing, we identified that payments had been made post year-end for agreements that were signed pre-year end and therefore should have been provided for. As the amount was only £27,000 and clearly immaterial no adjustment has been proposed, however, procedures should be put in place to ensure that the finance team is aware of all voluntary severance agreements that are signed but not paid at 31 March each year so that the need for any provision can be properly considered.</p>

Summary of significant audit risks and other matters (continued)

Understanding the subjective judgements and estimates (continued)

		← Acceptable range →												
		Less prudent					More prudent							
Landfill site provision							✓							<p>Local authorities have an obligation to undertake restoration and aftercare work at the point which it commences depositing refuse in the site and therefore we would expect a provision to be made no later than that stage in accordance with IAS37 Provisions, contingent liabilities and contingent assets.</p> <p>Aberdeenshire Council has four sites which are now closed, and have funding set aside as part of the capital plan in relation to these, totalling £2.357 million. As there uncertainty as to the work required and costs involved, the Council has disclosed this as a contingent liability.</p>
Defined Benefit Pension Scheme												✓		<p>The Council has based its disclosure on the information produced by the scheme's actuary, Mercer.</p> <p>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 2013. The assumptions have been set in accordance with generally accepted actuarial principles and are compliant with the accounting standards requirements of IAS19.</p>

Significant audit risks and other matters (continued)

Property, plant and equipment valuation

Background

- Changes to the property market and economic environment can drive significant movements in value.
- IFRS requires assessment with significant regularity to ensure no significant divergence between carrying value and fair value of assets.
- In 2011/12 an audit adjustment of £48.959 million was required to the Sheltered Housing value to reflect Existing Use Value – Social Housing.

Deloitte response

- Deloitte obtained and reviewed the revaluation performed on Land and Buildings 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 re-performed 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 internal 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.
- A number of issues arose as a result of our audit procedures, which are detailed in the following pages.

Net Book Value of Property,
plant & equipment at 31 March
2013: £2,001.864 million

Revaluation
increase to
Revaluation
Reserve
£50.050 million

Increase comprises a large
number of individual assets, the
most significant increases
relating to:

- Garioch Sports Centre - £10 million
- Meadows Sports Complex - £4.3 million
- Archeolink centre - £5.3 million
- Fraserburgh Community and Sports Complex – £2.9 million

Assets revalued in
2012/13:
£107.826 million
(Industrial, commercial
and park portfolio)

Revaluation decrease
to the CIES
£1.488 million

The most significant decrease is a net £3 million decrease in relation to Council Dwelling new builds which have become operational in the year.

The remaining £10 million relates to assets which have been “deleted” from the register as they were incorrectly included in prior years.

Significant audit risks and other matters (continued)

Property, plant and equipment valuation (continued)

Deloitte response (continued)

From our review, a number of issues were identified in relation to the valuations, the most significant of which are detailed below:

Issue

Finance charges of 4.76% have been adopted and various construction periods have been applied to different types of property (between 6 and 18 months). As the valuations should be undertaken in accordance with CIPFA IFRS based Code of Practice, the valuer should in the case of DRC valuations assume an “instant build approach” and therefore these finance charges should not have been included.

The valuer’s approach in relation to the valuation of Council park assets was found to be inconsistent with the approach adopted by other Councils. Most Councils have adopted the assumption that parkland (as opposed to playing fields) is not readily marketable. The valuer has discussed this issue with CIPFA, who confirmed the position, and as a result the value of parks (excluding any buildings) should be reclassified as community assets, and valued at historic cost.

Impact on Financial Statements

The valuer has revisited the assets valued on a DRC basis in 2012/13 to remove the finance charges, which has resulted in an audit adjustment of £73,000.

The valuer has revisited the value of Council parks currently held within PPE, which has resulted in an audit adjustment of £3.7 million, reclassifying these assets as Community Assets.

While this error existed in previous years, this has been deemed to not be qualitatively material, and therefore is valid to correct in the current year.

Significant audit risks and other matters (continued)

Property, plant and equipment valuation (continued)

Deloitte response (continued)

From our review a number of issues were identified in relation to the valuations, the most significant of which are detailed below:

Issue

Surplus Assets Held for Sale have not been valued on an annual basis in accordance with the Code. 14 assets are currently classified as “Assets Held for Sale”.

Only a limited number of inspections were undertaken by the valuer in relation to this valuation exercise. We understand that it is highly likely that a number of properties are inspected throughout the year by the estates team, however, we would recommend that the valuers set up a programme of sample inspections to ensure they are familiar with a representative sample of the properties which are subject to the rolling programme of valuations each year.

As noted on page 12, a downward revaluation of £10 million has been processed in the year to remove assets incorrectly included on the Fixed Asset Register. These assets (totalling 238 individual assets) were last revalued in 2007, however, it has subsequently been identified that they are either duplicate references or form part of a head lease arrangement.

Impact on Financial Statements

The valuer has revisited the assets classified as “Asset Held for Sale” and revalued at 31 March 2013, which has resulted in an audit adjustment of £2.029 million, reducing the Balance Sheet value by this amount.

No impact on Financial Statements. Recommendation that this is set up for future years.

The value at 31 March 2013 has been corrected to reflect these errors. While the prior year’s Balance Sheets have been incorrect, this has been deemed to not be qualitatively material, and therefore is valid to correct in the current year.

Significant audit risks and other matters (continued)

Property, plant and equipment valuation (continued)

In our 2011/12 report, we recommended that finance staff should undertake a review of all data provided by the valuer to ensure that it meets the requirements of the Code given the material adjustment required in 2011/12. In view of the issues arising referred to above, and the questions and comments received regarding the methodology and basis of valuations adopted, we would make the following recommendations.

The Council's valuation team should ensure that they are fully appraised of current valuation methodologies and best practice, in particular the IFRS based CIPFA Code of Practice.

Close liaison is required between the Council's valuation team and the finance team to ensure that the assets reflected within the Balance Sheet are complete and accurate.

An appropriate internal quality review process should be put in place to ensure that all revaluations included within the financial statements are in accordance with the requirements.

Significant audit risks and other matters (continued)

Asset register system

Background

- The Asset Register System used by the Council does not calculate the depreciation on assets revalued in the year and the movement on the Revaluation Reserve correctly.
- Manual checking and adjustments are required to ensure that the financial statements are not materially misstated.
- In 2011/12 an audit adjustment of £5.782 million was required to be made to the Revaluation Reserve as a result of errors from the system.

The "Progress on Action Plan" reported to the Scrutiny and Audit Committee in March 2013 noted that the finance team had liaised with the software provider and the methodology was being tested and at the time, testing appeared to be successful.

However, on completion of the testing, it was found that the correction suggested by the software provider did not work. Finance staff therefore had to manually calculate the adjustments required in advance of preparing the draft financial statements as they were unable to take reliance on the data provided by the system.

We have reviewed and tested the manual calculation prepared by Finance staff in relation the depreciation charge for the year and the movement on the Revaluation Reserve and no issues were noted.

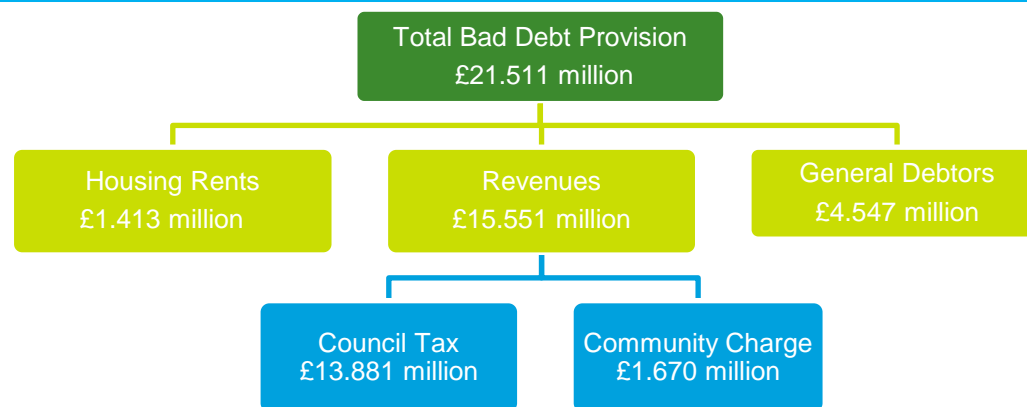
The Council should continue to closely liaise with the software provider to ensure that this issue is resolved. While the manual intervention has ensured that the financial statements are not materially misstated, this has resulted in a significant amount of time by finance staff to perform this manual calculation.

Significant audit risks and other matters (continued)

Bad debt provisions

Background

- Our 2011/12 testing identified that the provisions for bad debts were based on a percentage of amount expected to be collectable rather than the actual historic collection rate achieved by the Council.
- In 2011/12, unadjusted misstatements were reported in our Final Report, being a factual over-provision for Council Tax of £1.558 million for the period 1994-2007, compensated by a judgemental under-provision of £1.608 million for recent years.



Housing Rents

We have verified the gross debtor outstanding of £1.975 million to the Housing Rent system. The provision for bad debt is based on 2% for all debt less than 30 days old, 5% for debt between 31 and 60 days, 10% for debt between 61 and 90 days, 20% for debt between 91 and 180 days, 75% for debt between 181 and 365 days, and 90% for debt over 1 year old. These percentages have been in place for a number of years, although there is no documentary evidence to support this methodology. From our testing of post year-end receipts, we can conclude that the bad debt provision is not materially misstated, however, is towards the higher end of prudent given that there has been movement on the debt in the first 4 months of 2013/14.

Significant audit risks and other matters (continued)

Bad debt provision (continued)

Revenues

From our audit testing, we identified a number of issues in relation to this provision:

- The Council Tax provision was found to be based on an incorrect debtors balance, resulting in the Debtor being overstated by £8.9 million, and the corresponding bad debt provision being overstated by £6.3 million. This has arisen due to finance staff adjusting the debtor from the Council Tax system for items that could not be explained. We have verified the revised gross debtor outstanding of £19.675 million, being the gross debtor from the Council Tax system, adjusted for Scottish Water and second homes income which are not Council debtors.
- The Council has provided 100% for all Council Tax debts over 4 years old, with a 1% provision applied for more recent debts. We have verified the historical collection rates and confirmed that the average collection rate between 2001 and 2012 is 99%. We have therefore concluded that the provision (as adjusted) is not materially misstated, however, providing 100% on all debts over 4 years old (total provision of £9.5 million) is towards the higher end of prudent given there is evidence that the Council is still continuing to collect on these old debts.
- 100% provision has been made in relation to the debt outstanding for Community Charge of £1.670 million. Given that this debt pre-dates Council Tax, i.e. is pre 1993, we concur that this is appropriate.
- The Council had incorrectly carried a bad debt provision of £381,000 in relation to Business Rates. As the Council is acting as an agent for the Scottish Government to collect this income and therefore does not carry any of the risk, no provision should be made. This has been adjusted in the final financial statements to net off against the income due from the Scottish Government and is included in the corrected adjustments in Appendix 1.

General Debtors

We have verified the gross debtor outstanding of £10.314 million to the Debtors system. The provision for bad debt is based on 2% for all debt less than 30 days old, 5% for debt between 31 and 60 days, 10% for debt between 61 and 90 days, 20% for debt between 91 and 180 days, 75% for debt between 181 and 365 days, and 90% for debt over 1 year old. These percentages have been in place for a number of years, although as before there is no documentary evidence to support this methodology. From our testing of post year-end receipts, we can conclude that the bad debt provision is not materially misstated, however the methodology should be reviewed on a regular basis to ensure that the percentages applied are accurate.

Significant audit risks and other matters (continued)

Achievement of budget

Background

- Significant savings of £22 million were incorporated into the 2012/13 revenue budget
- Key focus for management and our audit testing
- Inherent risk of material misstatement due to manipulation of revenue and capital expenditure recognition.

Final outturn: £26.432 million underspend against budget (see Section 4 for further details)

While the final outturn for 2012/13 was a significant underspend against budget, this is in line with that reported to Council Members throughout the year. By highlighting this variance early in the year, this allowed the Council to approve amounts to be earmarked for specific projects such as £12 million towards digital connectivity provision and £11 million to various ring fenced reserves.

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 2012/13 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.

During March 2013, Internal Audit was notified of an invoice being paid through the Council's system which appeared to be in advance of receipt of the specified goods. In view of this, a review was performed by Internal Audit on a sample of invoices over £5,000 that had been processed around the end of the financial year. This review identified some serious issues regarding compliance with both the Council's procurement regulations, and year end accounting procedures. We have considered the specific issues raised by Internal Audit and are satisfied that the financial statements have been adjusted to correct the errors identified and an action plan is being developed to address the control issues identified.

Significant audit risks and other matters (continued)

Bank reconciliations

Background

- Our 2011/12 audit testing identified that the key bank reconciliations were not fully reconciled at the year-end, with appropriate adjustments made for reconciling items.
- 2011/12 Audit Adjustment of £3.6 million and an unadjusted misstatement of £240,000.

The Council has over 20 bank accounts which are reconciled to the ledger and other systems on a monthly basis.

Bank balance (excluding investments) at 31 March 2013: £139,000 overdrawn

We have tested the bank reconciliations performed by the Council at 31 March 2013, and tested a statistical sample of reconciling items to ensure that they have been posted correctly.

From our testing we identified that, while the bank accounts had been reconciled, the reconciling items identified had not been appropriately adjusted for within the financial statements. Within the debtors bank account reconciliation, a sum of £1.9 million was classed as a reconciling item at the year end, reducing the bank balance on the Balance Sheet. As this represented income received in March, this amount should have been recognised as income and the debtor reduced accordingly.

From our testing of other balance sheet items, we have also noted that entries have been incorrectly included within debtors, where the income was received pre-year-end, but due to timing was not banked until post year-end. The result of the above is that the debtors balance is being overstated.

In view of the errors identified in both the current and previous years, the Council should review its bank reconciliation process and ensure that a full understanding is obtained of all reconciling items.

A formal review process should be performed at the year-end to ensure that similar errors do not recur.

Significant audit risks and other matters (continued)

Provisions

Background

- Significant complexity and judgement around these calculations
- Risk that the provisions are incomplete.

Equal Pay

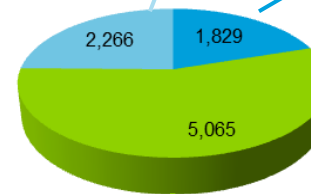
- We obtained confirmation from the Council's HR team of the total number of claims outstanding at 31 March 2013 to ensure completeness.
- We sample tested the provision calculation and agreed back to signed equal pay agreements, and re-performed the calculation.
- From our sample testing, we identified a potential over-provision of £349,000, based on the actual rates for comparator posts in comparison with those used in the Councils calculation.

Voluntary Severance

- We sample tested the provision at 31 March 2012 to payments made during 2012/13 to ensure that these provisions are no longer required. No issues noted.
- The Council's HR team was unable to confirm the total number of severance cases open at 31 March 2013. We therefore obtained a listing of severances payments made in April to June 2013. From our testing we identified that £27,000 of these costs related to agreements that had been signed at 31 March 2013 and therefore should have been provided for. Given that the value is not significant, no adjustment is proposed.
- Procedures should be put in place in future years to ensure that the finance team is made aware of the status of any severance discussions so that a provision can be considered.

Voluntary severance provision has reduced to zero as all payments were made in 2012/13.

2011/12 Provisions
£000

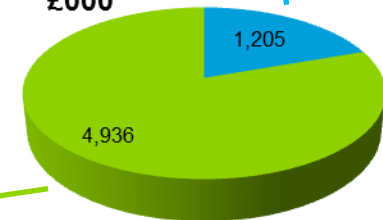


Other provisions include:

- £350,000 - Council's share of purchasing 19 houses for use as supported accommodation (10 purchased during 2012/13)
- £550,000 - Carbon Reduction Commitment Scheme
- £177,000 - Roads defects provision
- Other small provisions made

Between 2006/07 and 2011/12, actual payments of £22.105 million were made in respect of compensation for equal pay. A provision is held for staff who have not yet signed compromise agreements and who have progressed to a tribunal case. No claims were settled during 2012/13, however, a small number of tribunal claims were withdrawn or rejected, hence the provision has reduced by £129,000.

2012/13 Provisions
£000

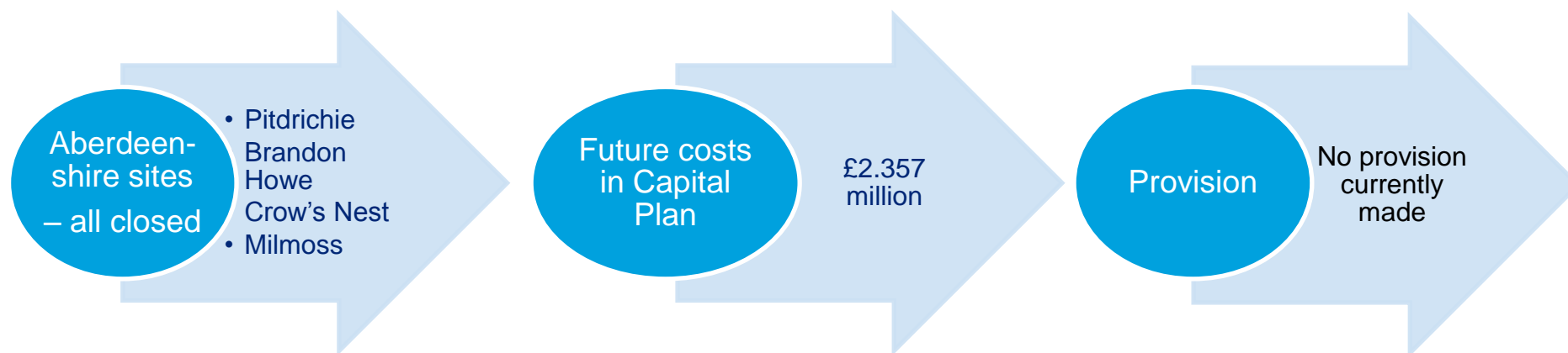


Significant audit risks and other matters (continued)

Provisions (continued)

Landfill Site Obligations

- Authorities have an obligation to undertake restoration and aftercare work at the point where it commences depositing refuse in the site.
- We would expect that the Council should be recognising a provision under IAS 37 *Provisions, contingent liabilities and contingent assets* no later than that stage.
- IAS 16, *Property, Plant and Equipment*, includes in the cost of an asset the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which the body incurs when the item is acquired or as a consequence of having used the item. IAS 16 therefore requires the costs of restoration and aftercare to be capitalised.



Based on the above, the Council has a present obligation as a result of a past event, and it is probable that an outflow of resources will be required. However the exact requirements of work required and costs involved are dependant on a number of factors including the quantity and quality of gas and potential energy recovery uses. Given the uncertainty, a contingent liability note has been disclosed.

We note that this topic is being considered by LASAAC to ensure that a consistent approach is adopted across all Councils, therefore we recommend that the Council follow up on any guidance issued by LASAAC.

Significant audit risks and other matters (continued)

Other Matters - Defined Benefit Pension Scheme

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.

Net Pension Scheme Liability at 31 March 2013: £295.002 million
(31 March 2012: £248.473 million)

We have:

- obtained a copy of the actuarial report produced by Mercer, the scheme actuary, and agreed in the disclosures to notes 42 and 43 within the accounts.
 - Confirmed the total assets of the scheme with the Pension Fund financial statement.
 - reviewed the disclosures within the accounts against the Code,
 - assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.
- No issues noted.

Appropriate disclosures have been made in relation to the adoption of the amendment to IAS 19 by the Code in 2013/14 which will result in a change of accounting policy.

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 LGPS, Police and Fire schemes as at 31 March 2013. We concur that the assumptions used appear reasonable and in line with those being used by other organisations with a March 2013 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 2013. The assumptions have been set in accordance with generally accepted actuarial principles and are compliant with the accounting standard requirements of IAS19.

Significant audit risks and other matters (continued)

We have no significant findings in respect of the below risks

Revenue recognition - Completeness of income

- Risk pinpointed to completeness of council tax and housing rents income given the significant to the organisation.
- No issues noted from our review of the treatment of income in the year, which has been accounted for in line with the Code.
- We have confirmed the net Council Tax income recognised to the amounts recorded in the Council Tax system, and reconciled this to the movement in the number of houses in the year, as independently reconciled to the Assessor.
- We have confirmed the net Housing Rents income recognised through the HRA to the amounts recorded in the Rents system. We have tested the movement in the number of houses in the year, as independently verified by the Valuer, and the average rent increase as approved as part of the budget process for 2012/13.

Management override of controls

- No significant issues noted around journal entries and other adjustments made in the preparation of the financial statements.
- Our review of accounting estimates for bias that could result in material misstatement due to fraud noted no issues.
- Retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements completed with no issues noted.
- From our journal testing, we noted a high number of journals being processed to correct errors previously processed. While all journals tested were found to be valid and correct, management should review to identify the cause, to ensure that procedures are developed to prevent similar errors being processed in the future.

Capital Accounting reserves

- No significant issues noted around the journal entries processed at the year-end for all capital accounting reserves.
- Sample testing of journals were found to have been processed in line with the Code.

Comments on *your Annual Report*

Comments on the front half of your Annual Report

The front half meets current regulatory requirements

We are required to read the “front half” of your annual report to consider consistency with the financial statements and any apparent misstatements. Here we summarise our observations on your response to these areas:

Observations on the accounts

We reported in our planning report a high level overview of how Aberdeenshire’s 2011/12 accounts compared with other Scottish local authorities. This noted the following:

Aberdeenshire Council’s accounts was ranked the 2nd longest in Scotland

In the last 10 years the length of Aberdeenshire’s accounts has more than tripled

A report that is too long runs the risk of obscuring the information that users truly value.

While the 2012/13 accounts are marginally shorter than 2011/12, and the disclosures made are in line with the Code, the Council should continue to review its disclosures to identify the underlying reasons for the length of the accounts.

Areas where the length could potentially be reduced include:

- Excessive disclosure notes for immaterial balances;
- Excessive accounting policy disclosures for immaterial balances or items that are not relevant to the Council; and
- Joining up the separate parts of front and back end to avoid repetition.

Comments on the front half of your Annual Report

The front half meets current regulatory requirements

We are required to read the “front half” of your annual report to consider consistency with the financial statements and any apparent misstatements. Here we summarise our observations on your response to these areas:

Governance Statement

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, 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 2013.

The Statement refers to the points raised in our Management Letter from our 2011/12 audit and notes the progress, with a further update due to be reported to the Scrutiny and Audit Committee in February 2014.

Reference is also made to the steps being taken to address the points raised by Internal Audit in relation to the year-end processes as referred to on page 19 of this report. A review is underway into this which will result in an Action Plan by the Head of Finance on behalf of the Management Team.

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 own audit.

Comments on the front half of your Annual Report (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.

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.

Significant observations on your Financial Statements

Critical accounting judgements and key sources of estimation uncertainty

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, understandability 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.

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

- Future funding uncertainty;
- Property, plant and equipment (PPE);
- Provisions;
- Pension liability;
- Arrears;
- Business Rates Incentivisations Scheme (BRIS).

We have assessed the disclosures based upon our review of the accounts and understanding of the organisation and the specific risks we identified as part of our planning process. We have not identified any other critical accounting judgements or key sources of estimation uncertainty that require to be disclosed. We have performed work as follows against each of these areas:

Future funding uncertainty – we have confirmed that a budget has been agreed for 2013/14 and indicative budgets are in place to 2017/18

PPE – page 12

Pension Liability – page 23

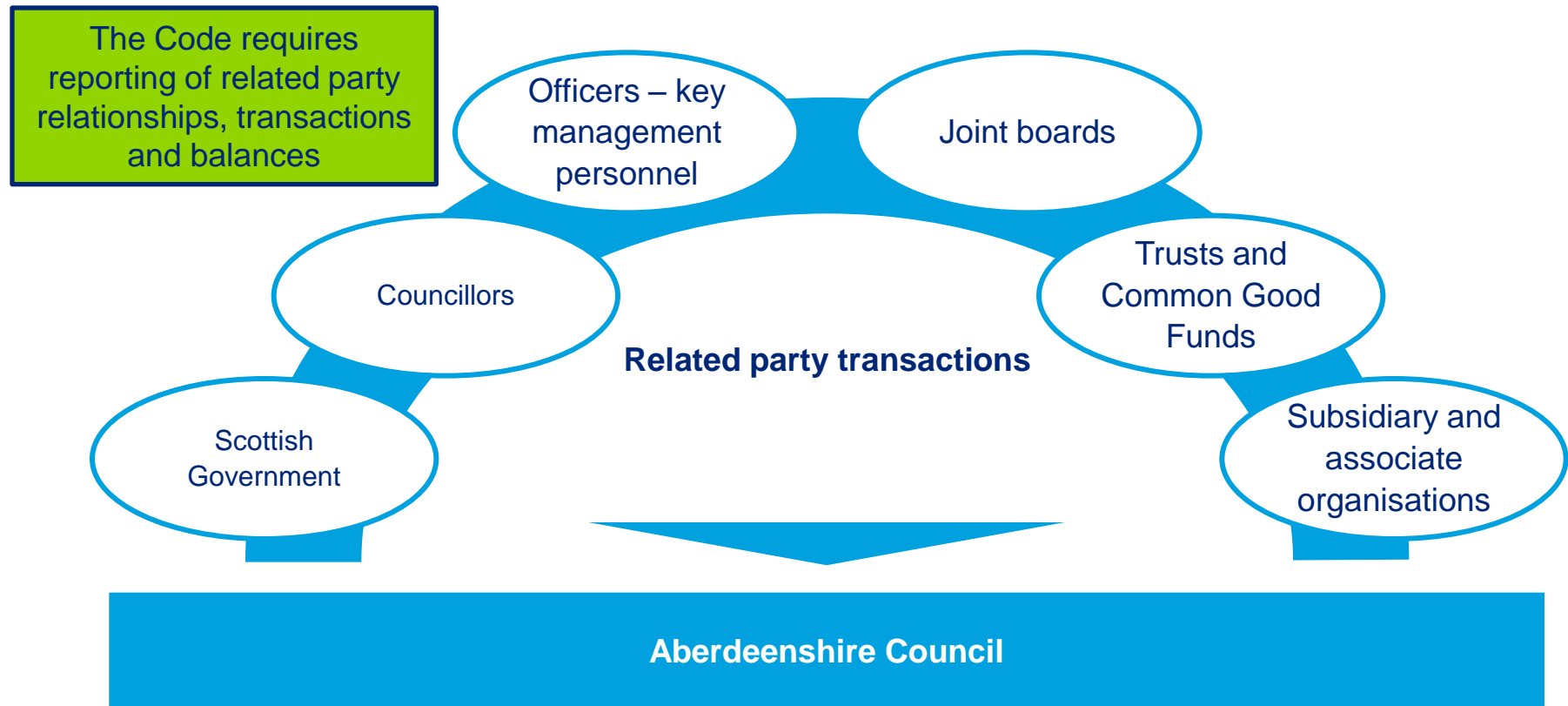
BRIS – We have tested the £170,000 included as income, in line with the revised targets set by the Scottish Government.

Provisions – page 21

Arrears – page 17

Significant observations on your Financial Statements (Continued)

Related party disclosure

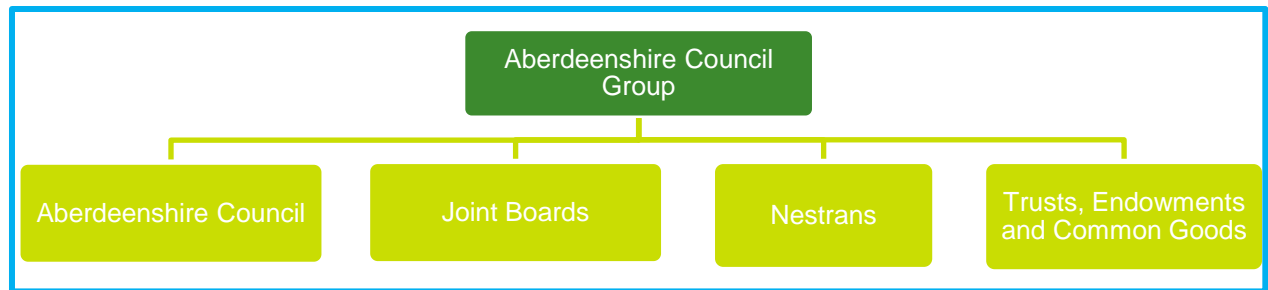


We have not identified any undisclosed related party transactions, and consider this to be a relatively low risk disclosure for the Council.

Significant observations on your Financial Statements (Continued)

Group accounts

Councils are required to prepare Group Accounts where they hold investments in subsidiaries, joint ventures or associate organisations.



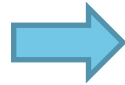
A number of other bodies which the Council has an interest in have been excluded from the Group Accounts on the basis of materiality.

Given the changes to the Police and Fire Joint Boards from 1 April 2013, the Council no longer has control over these entities and therefore there will be no requirement for consolidation from 2013/14 onwards. The Council should undertake a review of all entities in which it currently has an interest to re-assess whether there is still a requirement to prepare group accounts going forward.

Significant observations on your Financial Statements (Continued)

Charitable Trusts

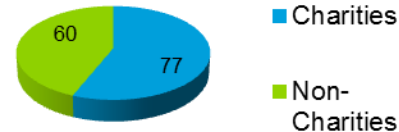
The Council acts as Trustee for 423 Trusts and Endowments and 17 Common Good funds.



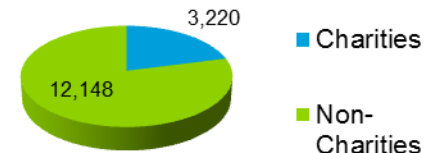
40 of the Trusts and Endowments are registered Charities. An analysis of the Income and Net Assets of these is shown below.

From 2013/14, all Scottish Councils who act as trustees for any registered charities will have to fully comply with the Charities Accounts Regulations. This will require Charities SORP compliant accounts to be prepared for each Charity, and a separate audit of each.

Income (£'000)



Net Assets (£'000)



To date, the Council has made limited progress in making use of the charity reorganisation provision in the Charities and Trustee Investment (Scotland) Act 2005.

The Council should advance its review of potential amalgamations of its current Charities, closely liaising with Office of the Scottish Charity Regulator (OSCR), to ensure that the potential administrative impact of these changes is minimised.

Best value, use of resources and
performance

Best value, use of resources and performance

Financial performance and outlook

	2012/13 Budget £'000	2012/13 Actual £'000	2012/13 Variance £'000	2013/14 Budget £'000
Gross Expenditure	550,739	553,152	(2,413)	492,786
Income	(532,647)	(538,351)	5,704	(512,317)
Surplus/ (Deficit)	(18,092)	(14,801)	3,291	19,531
Adjustments between accounting basis and funding basis	N/A	36,056	N/A	N/A
Transfer to Earmarked Reserves	N/A	(40,667)	N/A	N/A
Deficit on the Provision of Services	N/A	(10,190)	N/A	N/A

Aberdeenshire Council budgeted to use £18.092 million of reserves in order to achieve a balanced budget for the year to 31 March 2013. The final outturn was an in-year deficit of £14.801 million, resulting in £3.291 million being added to the reserves balance brought forward.

The Council's Comprehensive Income and Expenditure Statement reported a deficit on the provision of services of £10.190 million for the year to 31 March 2013. After adjusting for the difference between accounting basis and funding basis under regulation, the Council reported an increase in the General Fund balance of £19.978 million.

Best value, use of resources and performance

Financial performance and outlook

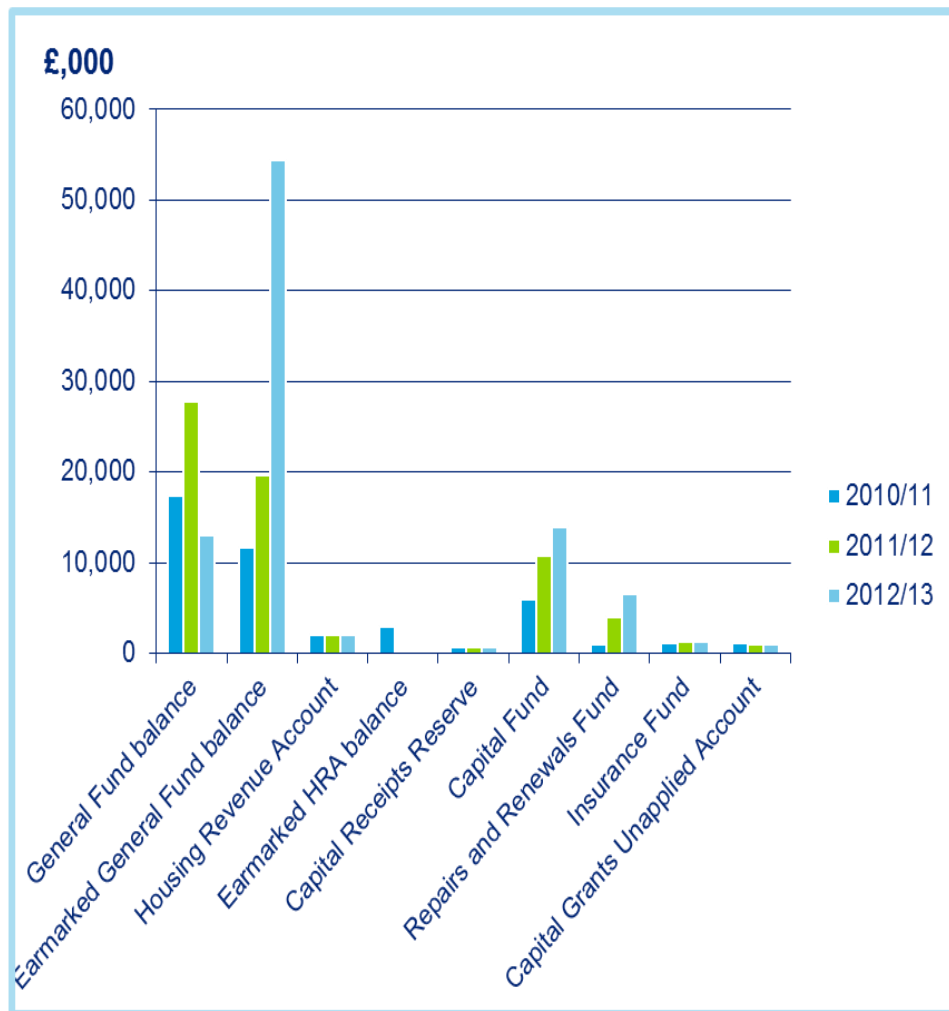
Variances were reported to the Policy and Resources Committee throughout the year, with a final report to the full Council meeting in June 2013. Significant variances from budget included:

- **Education, Learning and Leisure reported an underspend of £1.772 million.** This was due to a number of factors, most significantly the permanent teachers budget was underspent by £640,000 due to a combination of vacancies, a reduction in the average cost of un-promoted teachers and a reduction in the number of pupils in secondary education.
- **Housing and Social Work reported an underspend of £4.418 million.** This was due to a number of factors, the most significant being in older people budgets where the home care budget has underspent by £1.641 million due to delays and difficulties in recruiting, and residential care was underspent by £1.809 million due to one off saving of £1 million as a result of delays in opening a new care home and delays in filling posts in other care homes.
- **Joint budgets reported an underspend of £1.581 million.** This was due mainly to the removal of a number of significantly costly placement packages for young people from the Out of Authority Placement list.
- **Joint Board requisitions reported an underspend of £4.218 million,** due to a return of a share of the final surpluses from Grampian Joint Fire and Rescue Board and Grampian Joint Police Board.
- **Transfers to/ from reserves exceeded budget by £4.035 million,** due to the transfer of the additional income from the surpluses from the Joint Boards to earmarked reserves.
- **Infrastructure Projects exceeded budget by £12 million.** This represents the amount transferred as agreed by the Policy and Resources Committee to fund digital connectivity.
- **Revenue Support Grant income exceeded budget by £2.416 million.** Additional funding was received from the Scottish Government as a result of a reallocation of earmarked funds not required in 2012/13 for Teachers' induction across Scotland.
- **Council Tax income exceeded budget by £3.158 million.** This was due to a review of the Council Tax debtor and bad debt provision, resulting in previous provisions being released.

Best value, use of resources and performance

Financial performance and outlook

Usable Reserves



The Council's usable reserves balance has increased by £25.876 million in the year to £93.078 million at 31 March 2013, an increase of £48.898 million over the last two years. This has been achieved mainly as a result of the significant underspends against budget in the previous two years.

The Council's policy is to hold minimum working balances of £10 million (2% of budget) for the General Fund and £2 million (5% of budget) for the HRA. The level of reserves at 31 March 2013 is in line within this policy.

A sum of £54.374 million has been transferred to "Earmarked General Fund balance", to provide financing for future expenditure, including:

- £12.685 million to "Invest to Save" fund
- £12.000 million to Infrastructure Projects
- £12.606 million to "Six Key Areas for Development"

A capital fund balance of £13.954 million has been set aside to fund future capital expenditure and to prevent the need for additional borrowing.

In addition to the annual budget monitoring reports, regular reports should continue to be provided to Members on the progress of expenditure on these earmarked funds to ensure that plans are progressed.

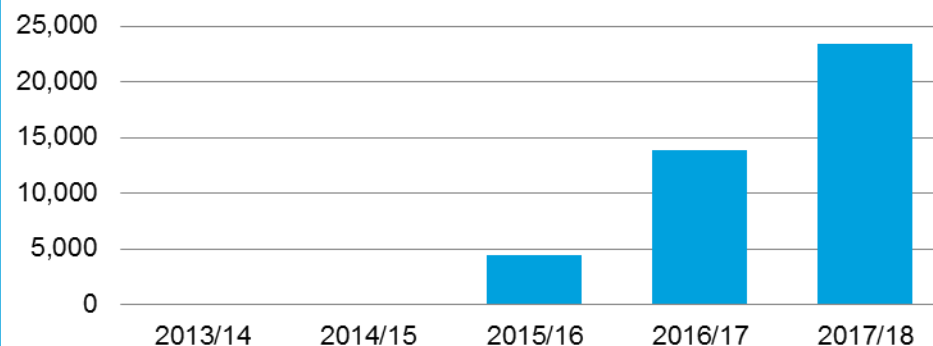
Best value, use of resources and performance (continued)

Financial performance and outlook (continued)

The 2013/14 revenue budget was approved by the Council on 14 February 2013. This budgeted gross expenditure is £492.786 million, with a budgeted surplus of £19.531 million. £18.8 million of this was to be transferred earmarked reserves, with £0.731 million added to the landscaping services budget. A number of risks have been identified by the Council when compiling the budget and are noted as being significantly greater than prior years.

Indicative budgets are in place for the next five years, which note that whilst 2013/14 and 2014/15 show a balanced position, significant shortfalls are projected in future years as noted below. This is based on expected funding levels and increasing demand pressures in future years. As part of the budget approval process for 2013/14, it was agreed that work would commence using a policy led budget approach to reduce these shortfalls.

Budget shortfalls (£'000)



The Council has undertaken a pilot exercise in relation to benefits realisation. However, further work is required to ensure that robust processes are in place across all transformation projects to ensure that efficiencies are realised to meet these predicted shortfalls.

The 2013/14 non-housing capital programme totalled £91.680 million and the housing capital programme totalled £20.546 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)

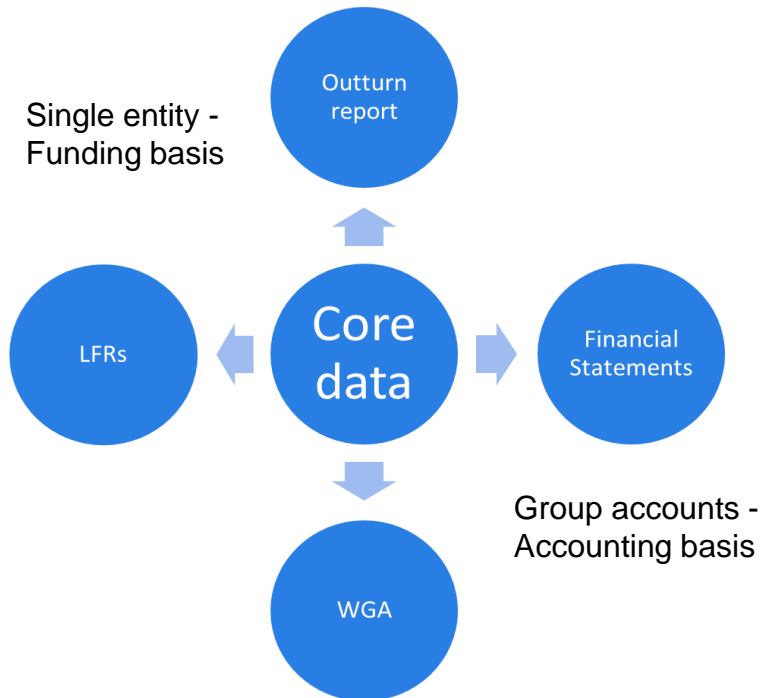
Whole of Government Accounts

Whole of government accounts (WGA) is the consolidated financial statements for all components of government in the UK.

Local authorities are required to provide information for the preparation of WGA.

External auditors are required to certify

Due to delays by Scottish Government, the audit deadline has been extended to 26 October 2013. We do not envisage any difficulties in meeting this deadline.



Benefits of WGA (source HM Treasury):

- Transparency – “making public data public” (to Parliament and taxpayers)
- Comparability – across different parts of the public sector, and with private sector, as financials produced on a consistent basis
- More complete picture of UK finances – provides overview and puts numbers into context
- Decision making – more information => better decisions
- LG controls around 45% of public sector PPE and accounts for about 30% of public operating expenditure (including approximately 44% of staff costs)

Given the various levels of reporting now required by the Council, consideration should be given to standardising, streamlining and simplifying the close down process. Looking to 2013/14 and 2014/15, it is expected that the Treasury will bring forward the timetable for submissions from local authorities to allow the publication of the WGA earlier. The Council should therefore be looking for ways to make the process part of the standard year-end routine.

Best value, use of resources and performance (continued)

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 its 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.

Policy and Resources Committee agreed the prioritisation of statutory and local PI's in line with strategic objectives in February 2012.

Within the Performance Management System (Covalent), each indicator must have a measure and target

Service performance reports are submitted to each Committee on an exception basis, with full details available to all Members through Covalent

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.

In 2011/12 we recommended that the Council undertake its own internal quality review as some errors were identified during our testing. While some review was performed, two indicators were required to be amended as they were found to be incorrect as a result of our testing. We therefore recommend that more robust procedures are put in place to ensure any anomalies are identified before they are submitted for audit.

In June 2013, Audit Scotland reported the findings of its review of Public Performance Reporting (PPR) across Scottish local authorities in 2011/12. While the SPI Direction sets a flexible approach, it does define corporate management themes and service performance areas that should be included in PPR. Audit Scotland's approach to evaluating the quality of performance reports is based on these themes and the Council's approach to presenting and explaining its performance information.

Aberdeenshire was reported as having 34.5% fully compliant, 55.2% partially compliant and 10.3% not compliant. The results of this work have been discussed with the Council and are being taken forward in developing PPR for future years.

Best value, use of resources and performance (continued)

National Fraud Initiative

We are required to monitor the Council's participation in the NFI exercise during 2012/13.

The Benefits Manager continues to have overall responsibility for the NFI exercise

Resources have been identified within Services to follow-up specific areas, e.g. payroll and creditors, although limited activity was noted pre July 2013

As at 31 August 2013, no frauds have been identified in either the 2010/11 or 2012/13 exercises

	Total matches	Total recommended to follow-up	Total processed at 31 August 2013
Housing Benefit	1,705	228	127
Payroll	935	349	0
Housing Tenants	48	19	0
RTB/ HB	12	12	0
Blue Badges	126	123	0
Res Care	151	9	0
Creditors	7,669	565	105
Total	10,646	1,305	232

All data was submitted to the NFI in accordance with the deadlines of September 2012. Slow progress has been made at the start of the year in reviewing matches, as noted above with only 15% of recommended matches being progressed in comparison with an average of 45% across all Councils. We would have expected areas with potential issues, such as duplicate record of invoice amounts and creditor references, Right to Buy to Housing Benefit Claimants and Blue Badge Parking Permits to Benefit Agency Deceased Persons to have been given a higher priority.

Best value, use of resources and performance (continued)

Other issues work – Priority and outcome budgeting

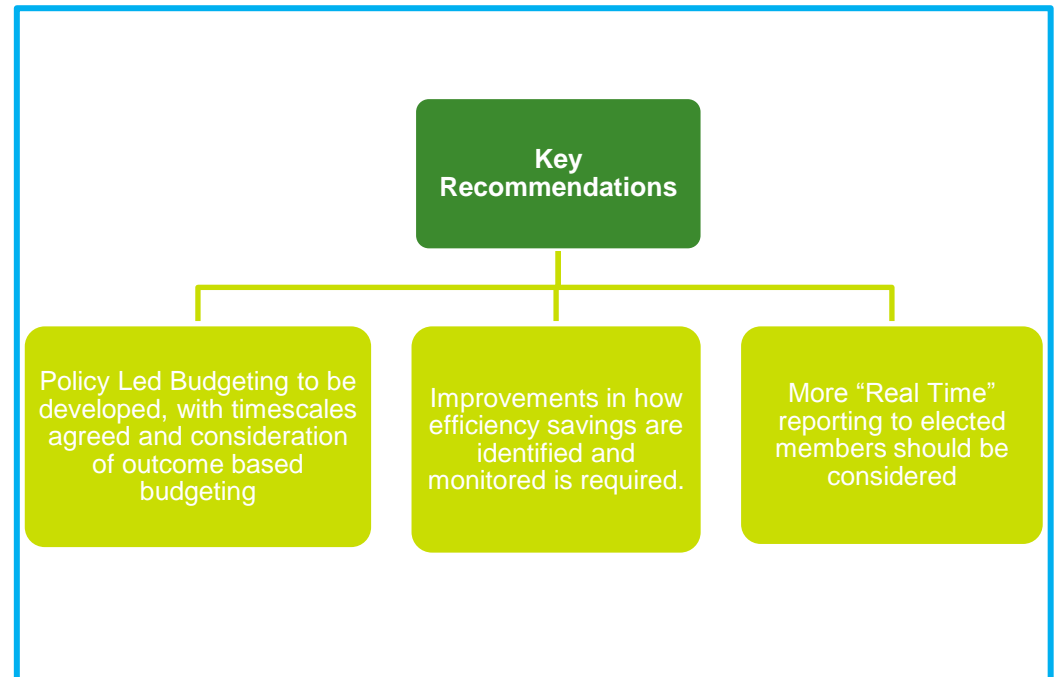
Background

- Significant underspends reported against budget in recent years.
- Risk based review has been undertaken to examine impact on service delivery.
- External factors impacting on ability to spend budgets.
- It has been four years since the last policy led budget review.

Reported
Underspends:
2011/12: £20m
2012/13: £26m

As part of the targeted follow-up work instructed by Audit Scotland, we have followed up the Audit Scotland report *Scotland's public finances: addressing the challenges*. The outcome of this work was reported separately to the Scrutiny and Audit Committee in March 2013 and is summarised on page 47 of this report.

In addition to the key recommendations noted, the Council should consider developing a Finance Business Partnering Model to help drive through the changes that are planned over the next few years. This would involve developing closer relationships between finance staff and services which would benefit the policy led review. This would also help to provide sufficient information and support to the Scrutiny and Audit Committee in their role.



Best value, use of resources and performance (continued)

Other issues work – Organisational capacity for change

Background

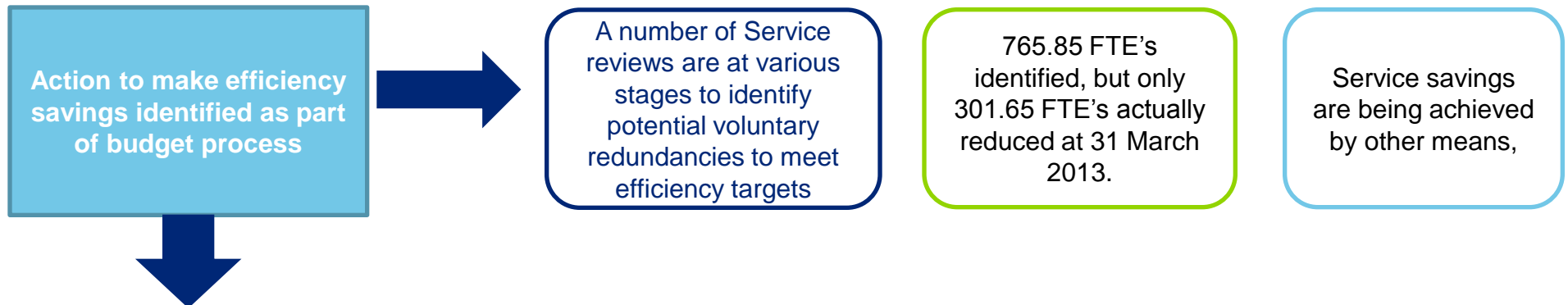
- Recruitment issues across the Council resulting in Service budgets including a number of vacant posts
- Council has committed to living wage supplement
- Several transformation projects planned and underway.

Overall arrangements

The Council is faced with a significant amount of change both externally driven (including Adult Health and Social Care integration and Welfare Reform) and internally driven business transformation projects.

The Council has recently started to “resource up” the Business Transformation projects with dedicated projects teams. It is also considering implementing a Programme Management Office (PMO) to take an overview of everything that is happening across the Council. Options on how this will be taken forward are currently being considered.

While the Council has addressed resource capacity, it should also ensure that the appropriate capability to manage organisational change successfully is in place to support the programme. The scale and complexity of the transformation programme will require this to be supported by comprehensive change management capability including change leadership, change readiness organisational alignment, communications and stakeholder engagement skills.



Best value, use of resources and performance (continued)

Other issues work – Organisational capacity for change (continued)

Action to fill Vacant Posts

Quarterly reports are being provided to Management Team to monitor workforce information and absence.



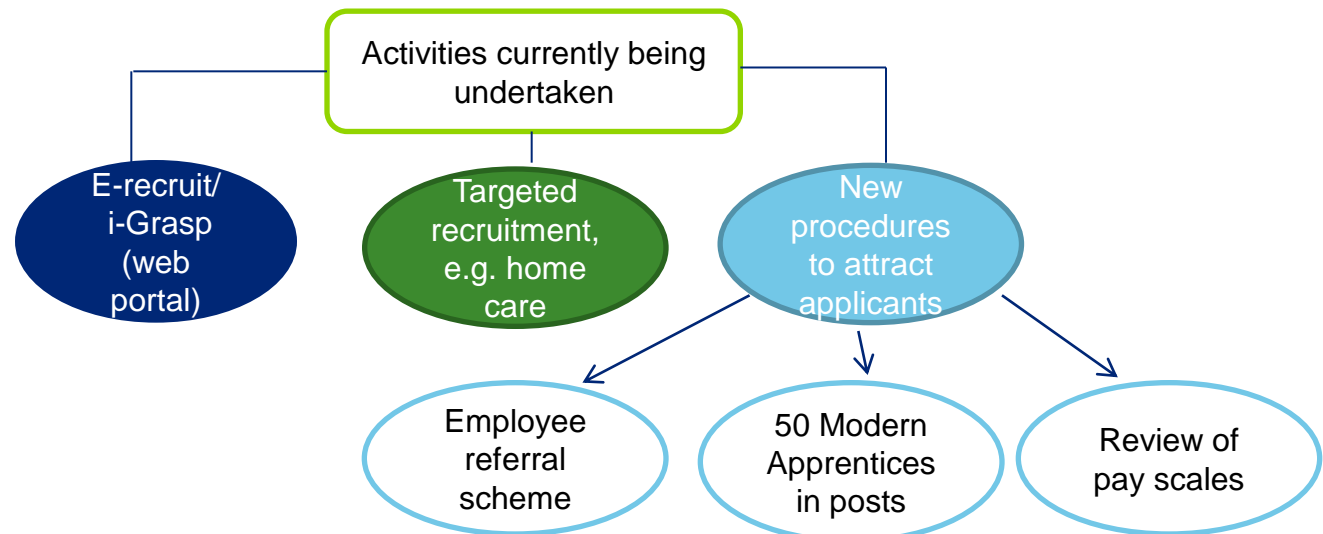
The Recruitment and Workforce Strategy team continue to work with Services to look at mechanisms to address issues around difficult to recruit posts.

While the Council is addressing resource capacity, it should also ensure that the appropriate capability to manage organisational change successfully is in place to support the programme.

As at 31 December 2012 (as supplied by HR):

Service	Vacancies	Posts to be removed	Posts now filled	Further investigation required	Seasonal	Total
Chief Exec	0	-	1	1	-	2
Corporate	8	20	27	2	0	57
EL&L	94	245	73	179	0	591
H&SW	40	173	29	25	2	269
Infrastructure	82	67	35	20	14	218
Totals	224	505	165	227	16	1137

Services are currently reviewing the “posts to be removed” to confirm they are correct. E,L& L and Corporate have confirmed that 226 and 8 posts were to be deleted from their respective structures. Once this review is complete, EMIS will be updated to ensure that any future reporting on unfilled posts is more accurate and meaningful.



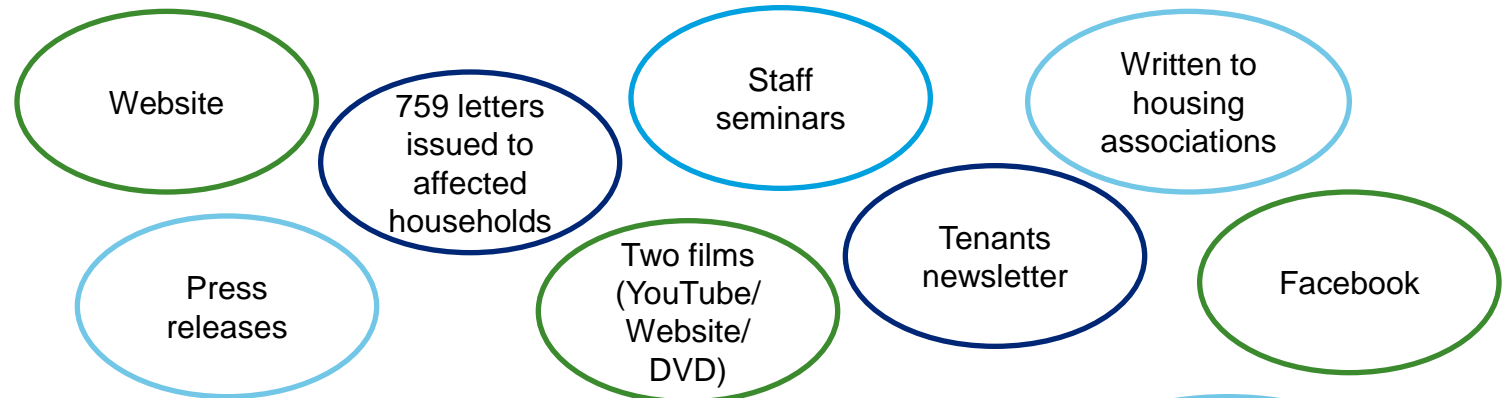
Best value, use of resources and performance (continued)

Other issues work – Welfare Reform

Background

- Welfare Reform Act received Royal Assent on 8 March 2012
- Universal Credit arrangements will replace the devolved administration of housing benefit
- Council tax benefit has been replaced by a Scottish council tax reduction scheme from April 2013.

In advance of the changes being made, the Council used a number of media to communicate the changes to local residents and other stakeholders.



Three project officers were put in post on fixed term contracts to create capacity within Housing and Social Work

Work is on-going throughout the Council to develop strategies linking to the Welfare Reform, including:

- Housing Allocations Policy was reviewed and approved by Committee in February 2013, making reference to size criteria
- The Council has procured Netsol as part of ICE (Improving Customer Experience) programme to provide an online HB/ CTB application form. Aberdeenshire is part of the pathfinder for this project.

The Council has noted that, in line with most other Councils, rent arrears have increased post 1 April 2013. It is not clear to what extent this is due to Welfare Reform. This is being monitored.

Best value, use of resources and performance (continued)

Other issues work – Health and social care integration

Background

- Adult Health and Social Care Bill due to be introduced during 2013, with implementation from 1 April 2015.
- Aim is to create a system of health and social care in which resources are best used regardless of whether they are 'health' or 'social care' resources.
- Move to an emphasis on outcomes.



We attended a joint meeting between NHS Grampian and Aberdeenshire Council in April 2013 where the progress with the national working groups and the work being done locally was discussed. Regular meetings are held between the Chief Executives of both organisations which demonstrates the commitment this is being given.

Work currently being progressed in Aberdeenshire:

- A Transitional Leadership Group has been set up, and first met on 3 July 2013.
- This Group is a non-decision making body comprising members of both Aberdeenshire Council and NHS Grampian as well as one third sector representative.
- A timetable has been agreed for the recruitment of Chief Officer, with a view to post being filled in December 2013.
- The Group has recommended an Integrated Joint Board as the preferred model of integration.

What can be learnt from successful integration elsewhere?

Leeds Community Healthcare NHS Trust

Part of a citywide agreement between health and social care partners to work together to improve the quality of health care and increase innovation and productivity.

The key drivers to the success were:

- Improving the patient experience being central to any activity;
- A focus on relationships, not structures;
- Intensive leadership development from the outset; and
- A strong vision / direction to go beyond the 'minimum'.

Kaiser Permanente

The largest not for profit health plan in the United States, renowned for its integration of primary, secondary and hospital care.

Kaiser Permanente have identified the key enablers to its success as being:

- **Working as a team**, including the optimisation of handoffs between providers
- Using an **end to end approach**
- A **Strong IT system** to gather and share information, track outcomes and systematically identify innovations.
- **Strong relationships with patients**

Best value, use of resources and performance (continued)

Local Area Network / Assurance and Improvement Plan (AIP)

Deloitte continue to actively participate in the Local Area Network (LAN) and make positive contributions to the Assurance and Improvement Plan (AIP)



The LAN met in December 2012 to update the shared risk assessment, and met with the Chief Executive and the Council's Management Team in January 2013.

The AIP Update 2013-2016 was published by Audit Scotland in April 2013. This reported that "the shared risk assessment completed in December 2012 has revealed and confirmed continued progress and improvement at both the corporate level and across services".

A further update is due to be performed later in 2013.

Best value, use of resources and performance (continued)

National Performance Reports

We have performed a focused follow up on 'Scotland's public finances: addressing the challenges'.

This work has been completed and our detailed findings from this review were included in a separate report to the Scrutiny and Audit Committee with a summary of these detailed herein:

The Council is responding positively to the challenges of public sector budget constraints and a significant amount of work has been undertaken in order to achieve financial sustainability. Some areas have been highlighted for management consideration in order to enhance the current process.






Risk management and internal control

Risk management and internal control observations

Key controls over significant risks

In Section 2 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:

Significant Risk	Control	
Property, Plant and Equipment	<p>Revaluations have been carried out by an independent, qualified individual. A rolling programme of external valuations has been performed by the Council's internal valuers. Journals are processed by finance staff based on information received, which is then reviewed as part of the final accounts process.</p> <p>We have reviewed the final accounts process and confirmed that the data from the internal valuer has been used. Given the audit adjustments required due to errors in the valuation, following a similar material audit adjustment in the prior year, additional controls should be put in place to ensure that the data provided by the valuer is in accordance with the Code.</p>	
Asset Register System	<p>Adjustments for depreciation, as calculated by the Asset Register System, are reviewed as part of the final accounts close down process.</p> <p>As part of this process, finance staff identified that the data produced by the system was unreliable, and therefore performed additional manual procedures to calculate the required adjustments.</p>	

Risk management and internal control observations (continued)

Key controls over significant risks

Significant Risk	Control
Bad Debt Provision	<p>Assumptions included in the bad debt provisions calculations are reviewed as part of the final accounts close down process.</p> <p>We have reviewed the final accounts process and confirmed that the calculations have been reviewed. The Council Tax bad debt provision has been reviewed against historical collection rates. However, the housing rent and general debtors provisions are based on historical percentages and do not represent the actual risk to the Council. Additional controls should therefore be put in place to ensure that the provisions are based on robust and current data.</p>
Achievement of budgets	<p>Budget monitoring reports are reviewed by Management and elected members throughout the year. We have confirmed that regular reports have been provided, and the final outturn reported at the end of March 2013 is consistent with that reported during the year.</p>



Risk management and internal control observations (continued)

Key controls over significant risks

Significant Risk	Control
Bank Reconciliations	<p>Bank reconciliations are performed on a monthly basis, and reviewed by the Principal Revenues Officer. The year-end reconciliations are also reviewed by the Chief Accountant.</p> <p>We have confirmed that the bank reconciliations have been completed during the year. However, in view of the adjustments required due to incorrect treatment of reconciling items, a more robust review process needs to be put in place to ensure that the implications of the reconciling items are fully understood and appropriately addressed as part of the final accounts process.</p>
Provisions	<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>We have noted that the Council had not considered the obligations in relation to Landfill sites as part of this process. Controls should therefore be reviewed to ensure that all potential provisions are considered and documented.</p>



Risk management and internal control observations (continued)

Key controls over significant risks

Significant Risk	Control
Revenue Recognition	<p>The Council Tax system is regularly reconciled to the Assessor records. The Housing Rent system is reconciled to the number of houses owned by the Council, held on the Fixed asset Register. Provisions for bad debts are calculated by the finance team at the year-end.</p> <p>We have reviewed the reconciliations during 2012/13 confirming that they are reviewed on a regular basis. While the Council Tax provision for bad debts is based on a review of actual collection rates, the Housing Rents provision is based on a historical percentage rather than actual collection rates. We have therefore recommended that this methodology be reviewed.</p>
Management Override	<p>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> <p>We have tested all journal entries of audit interest posted in the year and confirmed the appropriateness of the journals posted including approval</p>



Risk management and internal control observations (continued)

Key controls over significant risks

Significant Risk	Control
Capital Accounting Reserves	<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>



Risk management and internal control observations (continued)

Internal Control observations

We have identified a number of risk management and control observations, the most significant of which are detailed below. Our management letter will provide further details of the results of our work on accounting and internal control systems,

Description	Deloitte recommendation
<p>Supporting working papers As part of the completion of the annual financial statements we would expect the preparation of various schedules to support the balances, with appropriate internal review performed. Despite the preparation of a request list and agreement with the Finance team on both its content and timetable, a number of supporting workings were not available at the commencement of the audit, which was after the unaudited accounts were published.</p>	<p>Finance staff should ensure that working papers are completed, reviewed and available at the time the unaudited accounts are prepared, with a clear audit trail to all disclosure items.</p>
<p>Internal quality review A number of errors have been identified as part of the audit which we would have expected to be picked up as part of the Council's own internal review process. Limited analytical review was performed on the Balance Sheet items prior to the accounts being published, which is an ideal tool for identifying potential anomalies in the accounts.</p>	<p>A high level analytical review should be performed on all items within the CIES and Balance Sheet to ensure that all significant movements year on year are understood and meet the Council's expectations.</p>



Risk management and internal control observations (continued)

Internal Control observations

We have identified a number of risk management and control observations, the most significant of which are detailed below. Our management letter will provide further details of the results of our work on accounting and internal control systems,



Description	Deloitte recommendation
<p>Holiday Pay Accrual From our testing, errors were identified in both the current and prior year accruals calculation.</p>	<p>The methodology for calculating this accrual should be reviewed to ensure that it is based on robust data.</p>
<p>Amounts due in respect of pupils educated outwith Aberdeenshire An accrual was made for amounts due to Aberdeen City Council, as no invoices had been received for the last three years. Invoices have since been received, however, there is currently no Service Level Agreement (SLA) in place to determine responsibilities of each authority and agreement of charges.</p>	<p>An SLA should be developed and agreed with Aberdeen City Council, and should include agreed responsibilities, charging methods and a set of performance targets to monitor that the agreement is being met by both parties.</p>






Risk management and internal control observations (continued)

We performed follow-up work on our prior year risk management and internal control observations. The key results of this work are outlined below:





Key
Issue fully addressed and resolved
Issue addressed with some further improvements required
Issue not appropriately addressed

Area	Recommendation in 2011/12	Results of 2012/13 follow up	Status	Risk
Bank Reconciliations	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.	As referred to in Section 2, we have identified a further audit adjustment in 2012/13 as a result of incorrect treatment of reconciling items at the year-end. We therefore consider that further review of the bank reconciliation process is required to ensure that similar errors do not recur.		
Bad Debt Provision	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.	As referred to in Section 2, while the Council Tax bad debt provision is now based on a review of actual collection rates, the housing rent and general debtors provisions are based on historical percentages and do not represent the actual risk to the Council. Additional controls should therefore be put in place to ensure that the provisions are based on robust and current data.		

Risk management and internal control observations (continued)

Area	Recommendation in 2011/12	Results of 2012/13 follow up	Status	Risk
Valuations	Finance staff should undertake a review of all data provided by the valuer to ensure that it meets the requirements of the Code.	As referred to in Section 2 given the issues with regard to the basis and methodology of the valuation we would recommend that the Council's valuation team ensure that they are fully appraised of current valuation methodologies and best practice, in particular the IFRS based CIPFA Code of Practice. Finance staff should then review all data prior to preparing the financial statements.		
Authorisation of journals	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.	Procedures have been updated.		
Asset register depreciation calculation	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.	As referred to in Section xx, finance staff identified that the data produced by the system was unreliable, and therefore performed additional manual procedures to calculate the required adjustments. The Council should continue to liaise with the software provider to resolve this issue.		

Risk management and internal control observations (continued)

Area	Recommendation in 2011/12	Results of 2012/13 follow up	Status	Risk
Budget projections	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.	Regular reports have been provided to Committee during year, and the final outturn reported in March 2013 is in line with the projections reported.		
Performance information	The Council should incorporate an analytical review as part of its quality control checks to identify any anomalies before the data is submitted.	While a quality control check was incorporated into the Council's procedures, two errors (out of the 25 indicators reviewed) were identified, therefore further enhancement is required to the review process to ensure that errors are picked up prior to the data being passed to audit.		



No issues noted



Satisfactory – minor observations noted



Requires improvement



Significant improvement required

Risk management and internal control observations (continued)

A formal follow-up of our 2011/12 management letter will be discussed with management and issued following our audit debrief in October. The current status of the recommendations made in our management letter is detailed below.

Key Areas	Fully Implemented	Partially Implemented	Not Implemented	Not yet Due
Budget setting and monitoring	1	-	1	-
Ledgers	1	1	1	-
Payroll	-	-	-	3
Bank accounts	1	-	1	-
Accruals	2	-	-	-
Journals	1	-	-	1
Revenue systems	2	1	-	2
Property, Plant and Equipment	3	-	4	-
IT Environment	3	3	1	1
Performance Information	-	1	-	-
Total	14 (40%)	6 (17%)	8 (23%)	7 (20%)

Internal audit and control

Our reliance on the work of internal audit was in line with plan

Liaison with internal audit

The audit team, following an assessment of the independence and competence of the internal audit department, reviewed the work of internal audit. The results of this were:

For those areas where a significant risk was identified we performed the work ourselves.

We were informed by the work of the internal auditors in relation to key financial controls to shape our audit procedures and approach

No issues were identified with the work performed by internal audit

Responsibility statement

Responsibility statement

This report should be read in conjunction with the "Briefing on audit matters" circulated to you on 31 January 2013 and sets out those audit matters of governance interest which came to our attention during the audit. Our audit was not designed to identify all matters that may be relevant to the Council and this report is not necessarily 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. Except where required by law or regulation, it should not be made available to any other parties without our prior written consent

Deloitte LLP

Deloitte LLP

Chartered Accountants
Edinburgh

9 September 2013

Appendix 1: Audit adjustments and disclosure misstatements

Audit adjustments

Uncorrected misstatements

There are four uncorrected misstatements noted during the process of our audit work as per below.

Adjustment	Credit/ (charge) to current year CIES £'000	(Increase)/ decrease in net assets £'000	(Increase)/ decrease in reserves in reserves £'000
Creditors - over accrual in relation to pupils outwith Aberdeenshire	300	(300)	-
Over provision – Equal Pay Claims	349	(349)	-
Interest receivable from finance leases incorrectly netted off			
• CIES – Interest receivable and similar income	118	-	-
• CIES – Interest payable and similar charges	(118)	-	-
Understatement of Debtor due from Grampian Police and associated Creditor			
• Creditor	(237)	237	-
• Debtor	237	(237)	-
Total	649	(649)	Nil

Audit adjustments (continued)

Corrected misstatements

There have been eight corrected misstatements during the process of our audit work as well as eight mis-classifications. The net impact of total adjustments was to decrease net assets by £5.345 million and decrease the surplus against the provision of services by £0.603 million. As the items marked * are further adjusted through the Movement in Reserves Statement, the overall impact on the General Fund Balance is a reduction of £2.521 million. One further adjustment was required to the Group financial statements as a result of an audit adjustment to Grampian Joint Fire and Rescue Board.

Adjustment	Credit/ (charge) to current year CIES £'000	Increase/ (decrease) in net assets £'000	(Increase)/ decrease in reserves £'000
PPE - Over valuation and mis-classification of Community Assets *	(336)	(3,875)	3,539
Assets Held for Sale – valuation *	931	(885)	45
Common Good - Asset Held for Sale, under valuation	-	89	(89)
Council Tax Debtor overstatement	8,969	(8,969)	-
Council Tax Bad Debt provision overstatement	(6,448)	6,448	-
Business Rates Bad Debt Provision overstatement	-	381	-
Short Term Debtor due from Scottish Government understated	-	(381)	-
Being incorrect treatment of cash received in March: Cash and Cash Equivalents understated	-	1,973	-
Short Term Debtors overstated	-	(1,973)	-
Holiday Pay Accrual Understatement *	(1,857)	1,857	-
Total	603	(5,345)	4,335
Adjustment to the Group financial statement (Grampian Joint Fire and Rescue Board)			
Overstatement of Property, Plant and Equipment Valuations	(874)	874	-
Total	(874)	874	-

Audit adjustments (continued)

Disclosure misstatements

Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. The following potentially material disclosure deficiencies were noted in the course of our audit work.

Disclosure issue	
Mis-classification of amounts due to Historic Scotland and the PWLB, incorrectly classified as “other entities and individuals” – total value £5.142 million.	Correctly classified as “Central Government” in final audited accounts.
Mis-classification of amounts due from Scottish Water, incorrectly classified as “other entities and individuals” - total value of £1.526 million.	Correctly classified as “Public Corporations” in final audited accounts
Mis-classification of amounts due from the Scottish Government in relation to Business Rates income, incorrectly classified as “other entities and individuals” – total value £2.215 million.	Correctly classified as “Central Government” in final audited accounts.
Mis-classification of amount due to Aberdeen City Council in relation to VAT on the AWPR, incorrectly classified as “central government” – total value £0.588 million.	Correctly classified as “Local Government” in final audited accounts.
Mis-classification of income received as part of Roads and Transportation, incorrectly netted off against expenditure. – total value £2 million.	Corrected in final audited accounts
Mis-classification of advanced payment to Pension Fund – incorrectly classified as “other entities and individuals” in 2011/12 (£6.666m) and 2012/13 (£6.714 million).	Correctly classified as “Local Government” in final audited accounts.
Prior period mis-classification within Central Services, netting expenditure of £3.032 million against income in error.	Corrected in final audited accounts
Prior period mis-classifications within Creditors - £1.572 million incorrectly classified as “other local authorities” – should be classified as “other entities and individuals”, £1.313 million incorrectly classified as “public corporations” -£0.140 million should be central government and £1.173 million should be “other entities and individuals”.	Correctly classified in final audited accounts

Appendix 2: Independence and fees

Independence and fees

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:

Independence confirmation	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.
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Fees	The audit fee for the year has been agreed at £400,000 (inclusive of VAT) and is within the indicative fee range set by Audit Scotland.
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Non-audit services	<p>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.</p> <p>During the year ending 31 March 2013 we have been providing non-audit services to support the Council's benefits realisation work, with an agreed fee of £40,000 (excluding VAT).</p>
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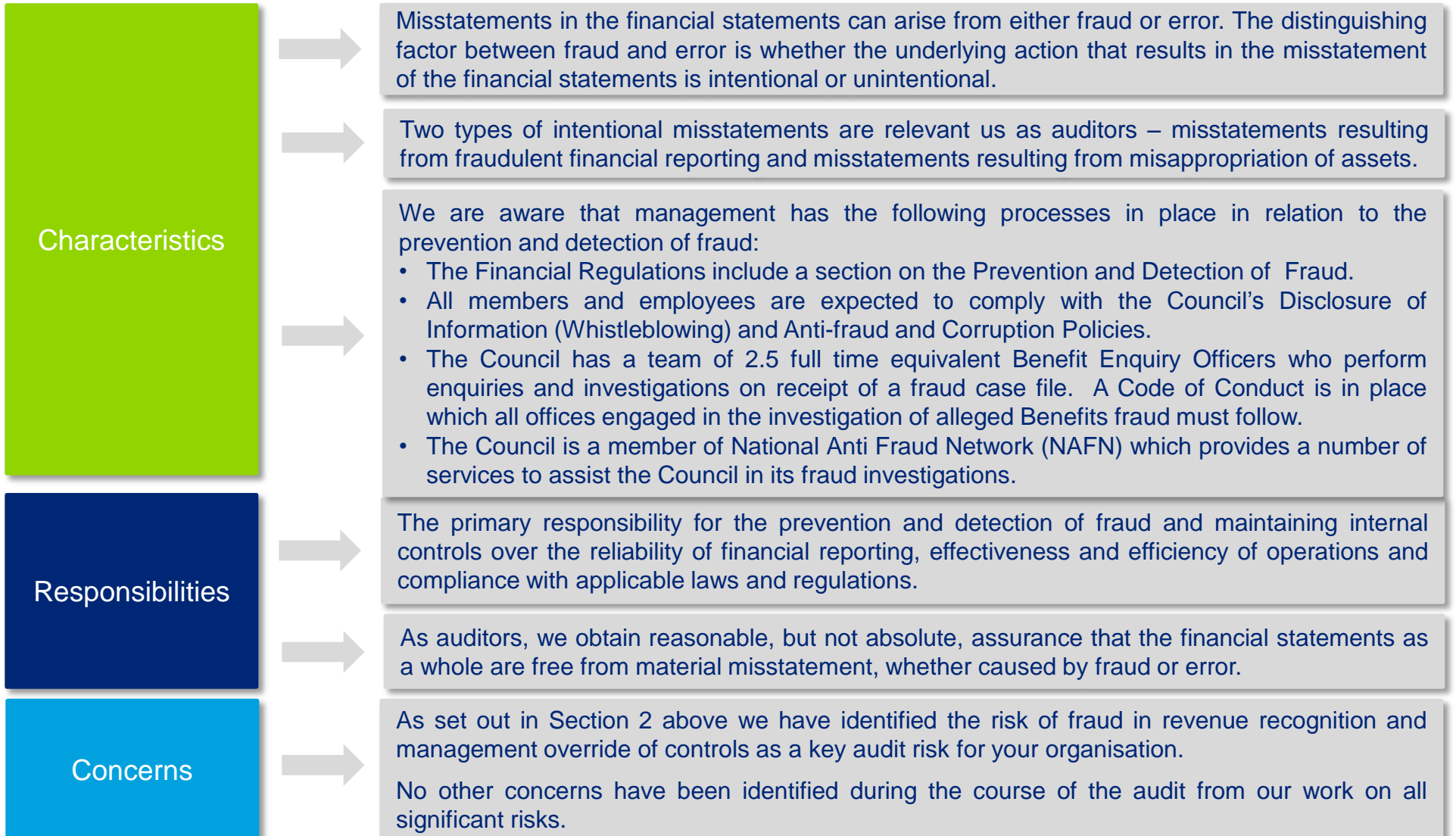
Relationships	We are required to provide written details of all relationships (including the provision of non-audit services) between us and the organisation, its board and senior management and its affiliates, including all services provided by us and the DTTL network to the audited entity, its board 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.
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We are not aware of any relationships which are required to be disclosed.

Appendix 3: Fraud considerations

Fraud considerations

The following represents a reminder of the fraud enquiries made at the planning stage of the audit:



Appendix 4: Representation letter

Representation letter

Deloitte LLP
Saltire Court
20 Castle Terrace
Edinburgh
EH1 2DB
United Kingdom

Our Ref: ABER/2013

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 2013 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 2013 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 Partnership 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. We 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.

Representation letter (continued)

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.

Representation letter (continued)

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 is 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.

13 We confirm that:

- all retirement benefits and schemes, including UK, foreign, funded or unfunded, approved or unapproved, contractual or implicit have been identified and properly accounted for;
- all settlements and curtailments have been identified and properly accounted for;
- all events which relate to the determination of pension liabilities have been brought to the actuary's attention;
- the actuarial assumptions underlying the valuation of the scheme liabilities (including the discount rate used) accord with the directors' best estimates of the future events that will affect the cost of retirement benefits and are consistent with our knowledge of the business;
- the actuary's calculations have been based on complete and up to date member data as far as appropriate regarding the adopted methodology; and
- the amounts included in the financial statements derived from the work of the actuary are appropriate.

Information provided

14. 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.

Representation letter (continued)

15. All transactions have been recorded and are reflected in the financial statements and the underlying accounting records.
16. We acknowledge our responsibilities for the design, implementation and maintenance of internal control to prevent and detect fraud and error.
17. 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.
18. 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.
19. 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.
20. We are not aware of any actual or possible instances of non-compliance with laws and regulations.
21. 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.
22. No claims in connection with litigation have been or are expected to be received.
23. We have no plans or intentions that may materially affect the carrying value or classification of assets and liabilities reflected in the financial statements.

Representation letter (continued)

24. We have recorded or disclosed, as appropriate, all liabilities, both actual and contingent.

25. 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 Accounting Officer, and on behalf of the Council

Appendix 5: Additional resources available to you

How to keep you up to date: Financial Reporting

IAS Plus

The IAS Plus website, maintained by Deloitte, provides the most comprehensive information on the internet about international financial reporting for accounting professionals, businesses, financial analysts, standard-setters and regulators, and accounting educators and students. 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>

IFRS Podcasts

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

Publications

Our iGAAP books are available to our clients electronically and in hard copy. These include our major manuals providing comprehensive, practical guidance to companies reporting under the relevant GAAP; 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 round up of recent developments. iGAAP alerts are issued whenever a new exposure draft or standard is issued.



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