Final Report to the Scrutiny and Audit Committee and the Controller of Audit on the 2013/14 Audit

24 September 2014

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12 September 2014

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 2014, for discussion at the meeting scheduled for 24 September 2014. This report covers the principal matters that have arisen from our audit for the year ended 31 March 2014.

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.
- We note that the Council is projecting a significant shortfall in its budget for future years. The expected savings from the ongoing transformation projects have not materialised at the pace anticipated, however, plans are in place to ensure that the savings are achieved through alternative means in 2014/15. It is essential that a robust benefits realisation delivery process is established, potential including a Programme Management Office, as a matter of urgency.
- We have noted that Internal Audit have raised a number of "major" graded recommendations during 2013/14, particularly around the non-compliance with financial regulations. There are also a number of recommendations from our previous years' management letters which still need to be fully addressed. It is important that the Council ensure that these recommendations are addressed in accordance with the agreed timetable.
- 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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A reminder of our audit plan:

- Materiality: £5.8 million (2012/13: £5.7 million).
- Threshold for reporting misstatements: £116,000 (2012/13: £114,000).
- Significant risks over property, plant & equipment valuations, bad debt provisions, revenue recognition and management override of controls.
- We have not placed any reliance on internal controls and our audit work was fully substantive. We assessed the design and implementation of controls as part of our planning procedures, to assess the sufficiency of the control environment governing the production of financial information.

1. The big picture

1. The big picture

We anticipate issuing an unmodified audit opinion

- We have identified **no material issues** and have noted **no material audit adjustments.**
- 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 in the notes and in particular the accounting policies.
- We **have no material control matters** to draw to your attention based on our testing carried out. Our controls observations have been included within Section 7 of this report. We have noted that Internal Audit has raised a number of "major" graded recommendations during 2013/14, particularly around the non-compliance with financial regulations. It is important that the Council ensures that these recommendations are addressed in accordance with the agreed timetable. In addition, we have followed up the recommendations made in our previous years' management letter and have noted that while some progress has been made, there are a number of recommendations, particularly around year-end close process and key balance sheet items which still need to be fully addressed.
- Whilst 2014/15 shows a balanced position, significant shortfalls are projected in future years, with a cumulative shortfall of £49.1 million predicted up to 2018/19.
- We have noted that the expected savings from the ongoing transformation projects have not materialised at the pace anticipated, although plans are in place to ensure these savings are achieved through alternative means. It is essential that a robust benefits realisation delivery process is established, potential including a Programme Management Office (PMO), as a matter of urgency.

Our work is substantially complete and we remain on timetable to issue an unmodified audit opinion.

We have the following principal matters to complete:

- Completion of audit procedures on separate charities accounts
- Review of final accounts
- Completion of our final quality review procedures
- Our review of events since 31 March 2014
- Receipt of signed management representation letter

1. The big picture (continued)

Uncorrected misstatements are significantly below audit materiality

- During the course of our audit to date we have identified five uncorrected misstatements – please refer to Appendix 1.
- 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.
- There have been no changes to the audit plan set out in the planning document presented to the Scrutiny and Audit Committee in January 2014.
- We did not identify any instances of fraud. See Appendix 3 for details of fraud considerations.
- We were informed by the work of the internal auditors in relation to key financial controls to shape our audit procedures and approach.
- A copy of the representation letter to be signed on behalf of the Council has been circulated to you separately. The following non-standard references have been included in the letter:
  - *We confirm that the missives in relation to the sale of Canal Park are being renegotiated and expect to be concluded in October stating a sale price of £8,696,193.93, being the purchase price of £7.5m plus and an element for RPI. We are therefore satisfied that the sale will be concluded and proceeds received in the near future and this has formed the basis of the value of this asset in the Common Good balance sheet.*
  - *We confirm that the provision included within the financial statements in respect of equal pay is our best estimate of the liability due by the Council.*
  - *There has been no provision or contingent liability disclosure in relation to the potential back dated holiday pay settlement. Based on the information and advice that we have received to date, we do not expect this to have a material exposure.*
  - *To best of our knowledge and belief the Council holds title to all Property, Plant and Equipment included in its balance sheet at 31 March 2014.*
- 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).

2. Introduction

2. Introduction

Scope, nature and extent of audit

Our overall responsibility as external auditor of the Council is to undertake our audit in accordance with the principles contained in the Code of Audit Practice issued by Audit Scotland in May 2011.

The special accountabilities that attach to the conduct of public business, and the use of public money, means that public sector audits must be planned and undertaken from a wider perspective than in the private sector. This means providing assurance, not only on the financial statements and associated documents such as governance statements, but providing a view also, where appropriate, on matters such as regularity (or legality), propriety, performance and use of resources in accordance with the principles of Best Value (BV) and ‘value for money’.

Our core audit work as defined by Audit Scotland is to:

- provide the **Independent Auditor’s Report** on the financial statements (including any assurance statement on whole of government accounts returns) and relevant registered charities;
- provide the **annual report** on the audit to the Council and the Controller of Audit;
- provide reports to management, as appropriate, in respect of the auditor’s corporate governance responsibilities in the Code (including auditors’ involvement in NFI);
- submit **fraud returns**, including nil returns, to Audit Scotland;
- certify all **grant claims,** submitted by the Council that have been approved for certification by Audit Scotland;
- discharge the auditor’s responsibilities in connection with bodies’ publication of **SPIs**;
- provide evidence and intelligence for, and participate in, the **Shared Risk Assessment (SRA) process** leading to the production of the Assurance Improvement Plan (AIP) and national scrutiny plan;
- report on the results of follow-up on councils progress in implementing existing **BV improvement plans**; and
- from 2013/14 our scope has been extended to include the audit of the registered charities for which the Council are sole Trustees and fall within the ambit of section 106.

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.

In addition to this annual report, we have completed and reported the following matters to those charged with governance (the Scrutiny and Audit Committee) of the Council:

- **Planning Report**
- **Targeted follow-up report: *Arm’s length organisations: Are you getting it right*?**

The key issues from these outputs are summarised in this report.

3. Significant audit risks and other matters

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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

	Less prudent														More prudent	
Property, plant and equipment (PPE) valuation								✓								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.
Bad debt provisions (Council tax and general debtors)											✓					Council Tax - 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, however the provision is considered reasonable. General debtors - Different rates applied to categories of debt (HRA, Homeless, Benefits and others) . No issues noted.
Revenue recognition – completeness of income (Council Tax and Housing Rents)								✓								No issues noted
Management override of controls								✓								No issues noted. Key judgements around areas such as equal pay provision and landfill sites deemed to be reasonable. No indicators of management bias noted from review of significant estimates and judgements. Bad debt provision and pension assumptions and have been tested as separate significant risk and other matters.
Defined Benefit Pension Scheme (other matter)								✓								The set of assumptions proposed by the Council (when considered as a whole) is reasonable and lies towards the middle of the reasonable range of assumptions when compared to the Deloitte benchmarks.

3. Significant audit risks and other matters (continued)

Significant audit risk - property, plant and equipment valuations

Nature of risk

Changes in the property market and economic environment can drive significant movements in value. There is a risk of material misstatement of the property, plant and equipment on the balance sheet.

Key facts and assumptions considered by the Council in preparing the impairment assessment

IFRS requires assessment with significant regularity to ensure no significant divergence between carrying value and fair value of assets, which should be performed by management at each year end.

The key judgement areas, impact on the financial statements and our audit challenge

- We reviewed the internal revaluations performed in the year and assessed whether they have been performed in a reasonable manner, on a timely basis and by suitably qualified individuals;
- We challenged the inputs made by management to the valuations;
- We tested a sample of revalued assets and reperformed the calculation assessing whether the movement has been recorded through the correct line of the accounts;
- We considered assets classified as surplus or held for sale to assess whether these have been valued and disclosed in line with IFRS; and
- We involved the use of our internal property specialists to review and challenge the assumptions and methodology adopted by the valuer.

Net Book Value of Property, plant & equipment at 31 March 2014: £2,015 million

Downward revaluation: £23.233 million (£16.384 million charged to the Revaluation Reserve and £6.849 million to the CIES). The most significant decreases include:

- Woodhill House - £21.587 million
- Gordon House - £3.3 million
- Viewmount - £1.5 million

These decreases to the office portfolio are a result of changes in assumptions on the capitalised value of properties and changes in the approach to the valuation of certain properties which were treated previously as specialised properties.

Impairment: £11.399 million

This is mainly as a result of the immediate 51% impairment applied to all Council House additions. This represents the difference between the market rents and social housing rent as these assets are valued on the basis of existing use value for social housing. We reviewed the basis of the 51% as part of our review of the full valuation performed in 2012 and the valuer has confirmed that this will be revisited as part of the next full revaluation of the housing stock in 2017.

3. Significant audit risks and other matters (continued)

Significant audit risk - property, plant and equipment valuations (continued)

Area	Observation	Conclusion
Modern Equivalent Asset (MEA)	Whilst the valuer has confirmed that the MEA has been assessed in relation to assets valued on the Depreciated Replacement Cost (DRC) basis, this is largely restricted to the adoption of modern replacement build costs and functional obsolescence issues. It would appear that the valuer's MEA considerations do not extend to the consideration of buildings or site sizes or location or there is no evidence that these issues have been considered. This issue may not have a direct impact upon the valuation of the Council's assets if the subjects valued on a DRC basis are fully utilised.	We consider that the Finance team needs to have a continued ongoing dialogue with the valuer on this issue as the valuations should take account of all MEA considerations including the size of a modern Aberdeenshire Council estate. **[Appendix 4 – Action Plan]**
Componentisation Threshold	The valuer has applied a deminimis threshold of £5 million and above for componentising assets. On this basis, no Surplus Assets qualified for componentisation and only two PPE assets were componentised.	We recommend that the Council review the potential number of assets that would be subject to componentisation next year and adjust the threshold accordingly. **[Appendix 4 – Action Plan]**

Deloitte view

We are satisfied that the correct guidance has been followed and the correct valuation bases are being adopted, subject to the two observations noted above. The valuer is independent, appropriately qualified and appears to have the requisite experience to undertake the valuations. From our audit procedures, we can also conclude that the NBV is not materially misstated.

We have, however, noted that of the 40 assets classified as held for sale at 31 March 2013, only 5 have since been sold in 2013/14. Management has noted that this is due to market conditions. To meet the definition of "held of sale", the Code requires the sale to be "highly probable". We recommend that management review its processes to ensure that all assets being classified as held for sale meet this definition. **[Appendix 4 – Action Plan]**

Our testing also noted that the Council's legal team was unable to confirm that it held the title for all assets held on the Balance Sheet due to the volume of work required. Our testing of disposals identified that the Council only identified that they owned a particular asset when it was put up for sale. The Council should carry out a review to ensure that title is held for all assets and that there are no omissions from the Balance Sheet. **[Appendix 4 – Action Plan]**

3. Significant audit risks and other matters (continued)

Significant audit risk - bad debt provisions

Nature of risk

There is significant judgement and complexity around debtor provision calculations. Material audit adjustments have been highlighted in the last two years in relation to the Council Tax bad debt provision. There is a risk that the valuation of provisions is not appropriate and assumptions underpinning calculations are not supportable. Particularly given the current economic climate, assumptions on recoverability of amounts may not be reasonable. The risk has been pinpointed to the Council Tax and General Debtors provisions given their level of materiality.

The key judgement areas, potential impact on the financial statements and our audit challenge

We have performed the following:

- Verified the gross debtor on which the provision is based to the Council Tax system and the general debtors system;
- Reviewed and challenged the methodology applied by the Council for the bad debt provision calculation;
- Reviewed and challenged management's judgements and assumptions included within the calculations; and
- Compared the provisions made with historical data on cash collection.

FY13/14 Total Bad Debt Provision
£23.630million (Gross Debtor £49.058 million)

Housing rents
£1.615million
(Gross Debtor
£2.2 million)

Revenues
-Council Tax
£14.778 million (Gross Debtor £20.439 million)
- Community charge £1.667 million (Gross Debtor £1.667million)

General Debtors
£5.570 million
(Gross Debtor
£10.182 million)

Deloitte view

We have no issues to note from our review of the General Debtor provision.

The Council has continued to provide 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 is not materially misstated, however, providing 100% on all debts over 4 years old (total provision of £10.3 million) is towards the higher end of prudent given there is evidence that the Council is still continuing to collect on these old debts.

A factual misstatement of £252,000 has been noted as cash has been received post year-end for debts that are 100% provided for. By applying a provision of less than 100% based on historical collection rates on these older debts, there is potential to release circa £1.187 million back into the General Fund, which has been identified as a judgemental misstatement. We continue to therefore recommend that the Council revisit its methodology for calculating the bad debt provision to ensure that it is based on a robust process. Benchmarking against other authorities may assist in this process.

[Appendix 4 – Action Plan]

3. Significant audit risks and other matters (continued)

We have no significant findings in respect of the below significant audit risks

Revenue recognition - Completeness of income

- Risk pinpointed to completeness of council tax and housing rents income given the significance 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 2013/14

Management override of controls

- No significant issues noted around journal entries and other adjustments made in the preparation of the financial statements.
- We have utilised Spotlight, Deloitte's patented analytics tool, to perform analytics on the journal entries posted in the year and insights have been noted on page 14.
- 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. We have made some observations on the treatment of Landfill Sites and classification of Assets Held for Sale.

3. Significant audit risks and other matters (continued)

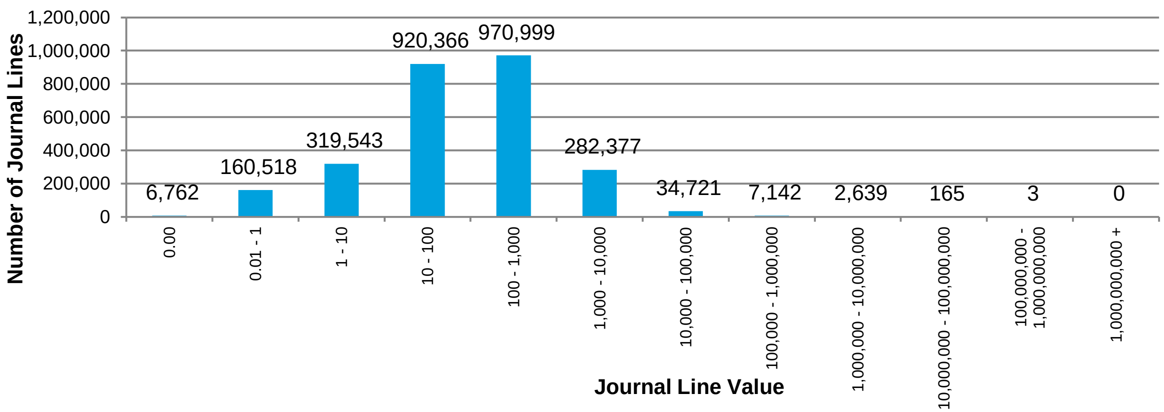
Insights from journal entry testing

We have utilised **Spotlight** to perform analytics on all of the journal entries processed during the year. We have highlighted some key themes arising from this work for your consideration.

Key metrics

Total number of journal lines:	2,705,235	
Journal lines entered with zero value:	6,762	*0.25%*
Total number of journals:	10,715	
Total number of journals with "error" or "reversal"	296	*2.76%*

Distribution of journal line values



User statistics

Number of users posting journals in the period	187
Average number of journals per user	57.30

Top 5 users

Username	**Total Number of Journals**
User A	980
User B	861
User C	791
User D	734
User E	724

Points for management consideration:

- From the analysis of journal line values, over 1 million lines are for less than £100. There is therefore scope to make efficiencies by reviewing the journals posted and potentially batching smaller value transactions.
- The underlying reasons for the journals made in error should be investigated to reduce the need for correcting journals.
- Over 150 users have processed less than 10 journals per quarter. The Council should consider the need for all users to have access.
- From the analysis of general ledger account codes a number of codes are used infrequently. As part of the Council's review of the Coding structure, the need for all these codes should be reviewed.

3. Significant audit risks and other matters (continued)

Other matters – landfill obligations

A key management judgement, as noted in our 2012/13 annual report, was the treatment of **Landfill Site obligations**.

An authority has an obligation to undertake restoration and aftercare work at the point where it commences depositing refuse in the site. 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, therefore a provision should be made. 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, the Council has continued to disclose this as a contingent liability note.

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.

[Appendix 4 – Action Plan]

3. Significant audit risks and other matters (continued)

Other matters - bank reconciliations

Nature of risk

During recent audits we identified that although the bank accounts had been reconciled, the reconciling items had not been cleared correctly. Significant audit adjustments were therefore required to correct these errors in the previous two years. There is therefore a risk that reconciling items are not processed correctly resulting in errors in the financial statements.

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 2014: £3.419 million overdrawn

The key judgement areas, potential impact on the financial statements and our audit challenge

- We reviewed a sample of bank reconciliations as at 31 January 2014 during our interim audit visit in February and provided informal feedback in advance of the year-end;
- Due to work still being progressed to address the issues raised in previous audits, no detailed testing was performed during our interim visit;
- We tested the bank reconciliations performed by the Council at 31 March 2014; and
- We tested a sample of reconciling items to ensure that they have been posted correctly.

Deloitte view

While progress has been made in providing a clearer audit trail of the bank balance and reconciling items, the bank reconciliation at 31 March 2014 still contained significant unreconciled items. These have subsequently been matched off post year-end with no impact on the financial statements. The Council should continue to ensure that reconciling items are cleared timeously.

3. 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 uses a notional fund as the basis for calculation of 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 2014: £234.355 million
(31 March 2013: £295.002 million)

We have:

- obtained a copy of the actuarial report produced by Mercer, the scheme actuary, and agreed in the disclosures to notes 39 and 40 within the accounts;
- reviewed and challenged the assumptions made by Mercer;
- Independently confirmed the total assets of the scheme with the Pension Fund financial statement as it is not possible to confirm the Aberdeenshire Council share of the assets;
- reviewed the disclosures within the accounts against the Code; and
- assessed the independence and expertise of the actuary supporting the basis of reliance upon their work.

No issues noted.

The 2012/13 comparative numbers have been restated as a result of the amendments to IAS 19 which have been adopted by the Code in 2013/14. This has been disclosed as a prior period adjustment in note 11(i), the net effect of which is that the total pension costs recognised in the CIES has been increased by £8.619 million. We have confirmed the restated numbers to the actuarial report produced by Mercer and noted no issues.

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 schemes as at 31 March 2014. We concur that the assumptions used appear reasonable and in line with those being used by other organisations with a March 2014 year end.

We have reviewed the assumptions and on the whole, the set of assumptions is reasonable and lies towards the middle of the reasonable range of assumptions when compared with the Deloitte benchmarks. This is a slight change in position from 31 March 2013 where the Council was more prudent. The assumptions have been set in accordance with generally accepted actuarial principles and are compliant with the accounting standard requirements of IAS19.

3. Significant audit risks and other matters (continued)

Other Matters – Valuation of Pension Scheme (continued)

Assumptions 2013/14	Council 2013/14	Deloitte Benchmark	Comments
Discount rate - LGPS	4.4%	4.35%	Realistic, albeit slightly optimistic
Discount rate – Teachers	4.3%	4.05%	Realistic, albeit slightly optimistic
Consumer Price Index (CPI) Inflation rate – LGPS	2.4%	2.35%	Reasonable
CPI Inflation rate - Teachers	2.4%	2.2%	Reasonable
Salary increase (over CPI inflation)	4.15%	Council specific	Consistent with previous year-end
Pension increase – LGPS	2.4%	2.35%	Slightly prudent
Pension increase - Teachers	2.4%	2.2%	Slightly prudent
Current mortality	S1PXA	Council specific	Consistent with the 2011 funding valuation of the Fund. Reasonable.
Mortality – future improvements (CMI – Continuous Mortality Investigation)	CMI 109 with a 1.5% p.a. long-term rate	CMI 13 with a 1.25% p.a. long-term rate	Slightly prudent
Overall			**Reasonable (Middle of reasonable range)**

4. Your annual report – our review and insights

4. Your annual report – our review and insights

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 2012/13 annual report that in the last 10 years, the length of Aberdeenshire Council's accounts has more than tripled. We therefore recommended that the Council should review its disclosures to identify the underlying reasons for the length of the accounts. While the 2013/14 accounts are 34 pages (22%) shorter than 2012/13, largely as a result of the removal of the group accounts, there is still scope to make the accounts more user friendly.

CIFPA has issued ***Financial statements – a good practice guide for local authorities*** which is intended to help local authorities reduce the clutter in their financial statements.

The publication highlights that cutting the clutter is not something that can only be achieved at standard setters level, and local authorities should review their financial statements and remove any unnecessary disclosures that make them difficult to use by:

- considering what information is material to the users of the accounts; and
- improving the presentation of the accounts so that users can more easily identify key information.

The publication comprises two parts:

- **Part 1 –** considers general principles, such as identifying the users of the accounts, and how to apply the concept of materiality.
- **Part 2 –** discusses good practice in the production of each of the primary statements, the notes to the accounts, and the explanatory foreword, and considers how alternative presentation formats may help make information, particularly in the notes, more accessible.

Aberdeenshire Council should consider this guidance in reviewing the format and content of its financial statements going forward. **[Appendix 4 – Action Plan]**

4. Your annual report – our review and insights (continued)

Governance Statement

"Delivering Good Governance in Local Government" published by CIPFA and SOLACE recommends that the review of the effectiveness of the system of internal control be reported in an Annual Governance Statement. Scottish local authorities are not subject to such statutory requirements but may adopt them voluntarily.

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 2014.

The Statement refers to the points raised in our Management Letter from our 2012/13 audit and notes the progress, with a further update due to be reported to the Scrutiny and Audit Committee in April 2015. Reference is also made to the steps being taken to address the points raised by Internal Audit where improvements can be made to compliance with policies and procedures, particularly the implementation of recommendations from Internal Audit reports. The Management Team has recognised this concern and has instructed all relevant managers to ensure that Internal Audit reports contain realistic target dates and actions. This is consistent with the findings of our own audit.

The Council's overall governance arrangements are satisfactory and appropriate:

- The established Committee Framework at the Council remains in place. Each of the Committees met regularly in the year.
- On 1 September 2014, the Chief Executive announced his retirement. He will remain in post until a replacement has been appointed.
- Changes to the Directors' portfolios has come into effect between April and June 2014, now being Business Services; Education and Children's Services; Communities; and Infrastructure. There is currently no change to the Committee structure, however, this is being reviewed to consider whether the current committees reflect the changing landscape of local government.
- The Policy and Resources Committee and other Committees continue to receive regular and detailed performance and financial information to facilitate effective scrutiny and challenge by members.
- A Risk Management Policy is in place, and the corporate risk register is supported by comprehensive risk registers within Services. These are reviewed by Members and Management team on a regular basis.

4. Your annual report – our review and insights (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.

Aberdeenshire 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 employees, being the Chief Executive, Directors and Heads of Service. In addition disclosure is made of the remuneration of Senior Councillors in the year.

We have agreed the data within the Remuneration Report to the Council's ledger, 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.

We are satisfied that the Remuneration Report has been prepared in accordance with the amended regulations and is consistent with the findings of our audit.

The Remuneration Report is included from page 107 of the statement of accounts and hence is given significantly less prominence than most other public bodies.

4. Your annual report – our review and insights (continued)

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 uncertainly 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 2014/15 and indicative budgets are in place to 2018/19 (see further comments on page 28)

PPE– page 10

Pension Liability– page 17

Provisions – page 13

Arrears – page 12

BRIS– We concur with the Council's prudent approach in disclosing a Contingent Asset given that targets have yet to be set by the Scottish Government for 2013/14, as disclosed in note 36 of the accounts.

5. Best value, use of resources and performance

5. Best value, use of resources and performance

Financial performance

	2013/14 Budget £'000	2013/14 Actual £'000	2013/14 Variance £'000
Gross Expenditure	507,860	504,907	(2,413)
Income	(510,716)	(511,802)	5,704
Surplus	**2,856**	**6,895**	**3,291**
Adjustments between accounting basis and funding basis	N/A	39,385	N/A
Transfer to Statutory Reserves	N/A	(1,827)	N/A
Deficit on the Provision of Services	**N/A**	**(34,317)**	**N/A**

In 2013/14, Aberdeenshire Council budgeted to make a surplus of £2.856 million in order to replenish working balances. The final outturn was an in-year surplus of £4.040 million, resulting in £6.895 million being added to the reserves balance brought forward, of which £1.078 million has been earmarked.

The Comprehensive Income and Expenditure Statement reported a deficit on the provision of services of £34.317 million for the year. After adjusting for the difference between accounting basis and funding basis under regulation, the Council reported an increase in the General Fund balance of £6.895 million.

Variances were reported to the Policy and Resources Committee throughout the year, with a final report to the full Council meeting in June 2014. Significant variances from budget included:

- **Education, Learning and Leisure reported an underspend of £0.851 million** due to a number of factors. Supply teachers underspent by £754,000 due to continued difficulty in recruiting. This was partly offset by an overspend of £2.288 million in permanent teachers due to rising Rolls within primary and a requirement to recruit additional teachers from August 2013 to implement the revised staffing formula. Payments to other local authorities also came under budget by £561,000 due to one-off savings due to provision for unbilled amounts from Aberdeen City for the last three years being higher than the amount actually billed.

- **Joint budgets reported an underspend of £0.982 million** mainly as a result of removing a number of significantly costly placement packages for young people from the Out of Authority Placement list.

5. Best value, use of resources and performance (continued)

Financial performance (continued)

- **Housing and Social Work reported an overspend of £2.029 million** due to a number of factors. Adult Services Community Care was over budget by £905,000 due to cost and increase in number of care packages required. Childrens Services was underspent by £416,000 mainly due to vacant posts in Community Care and Family Services. Older People Home Care was underspent by £1.639 million as a result of vacancies. Older People Care Management was overspent by £2.705 million which was attributed to the staff and care being purchased from the independent sector. The underlying cause of the increased spend is a combination of pressure from ageing population and new shorter targets for care managers to prevent delayed discharges from hospitals. This, together with the difficulties in recruiting has put added pressures on the external Care at Home Providers and external placements.

- **Infrastructure Services reported an underspend of £3.280 million.** As a result of the generally mild winter season, the winter maintenance budget was underspent by £813,000, however, this was offset by an overspend of £1.114 million in roads maintenance where additional maintenance work was progressed as a result of the mild weather. Internal Transport underspent by £515,000 due to reduced need to lease vehicles. Development Management underspend by £630,000 due to a 20% increase in Planning Application fee rates. Quarries was also underspend by £865,000 due to increased income from Roads and Related Services as a result of increased workload and continuing high demand from external sales. Finally, refuse collection was over budget by £792,000 due to expenditure on Co-Mingled collections which were being rolled out across the year.

- **Council Tax income was £1.030 million greater than budget** due to a recalculation of the bad debt provision and an increase in the number of properties.

Deloitte comment:

- From the analysis above, a key challenge faced by the Council is difficulty in recruiting, particularly for teaching posts and care workers. The Council continues to actively identify alternative strategies to address this gap.
- Significant variances are in Adult Services which will be transferring to the Adult Health and Social Care Partnerships from 1 April 2016. Close scrutiny of this is required to ensure that this is appropriately managed as part of the new Partnership.

5. Best value, use of resources and performance (continued)

Financial performance (continued)

The Council's **Usable Reserves** balance has increased by £6.849 million in the year to £83.087 million at 31 March 2014, an increase of £36.848 million (79%) over the last two years. This has been achieved mainly as a result of the significant underspends against budget in the previous two years and the transfer of balances to earmarked reserves.

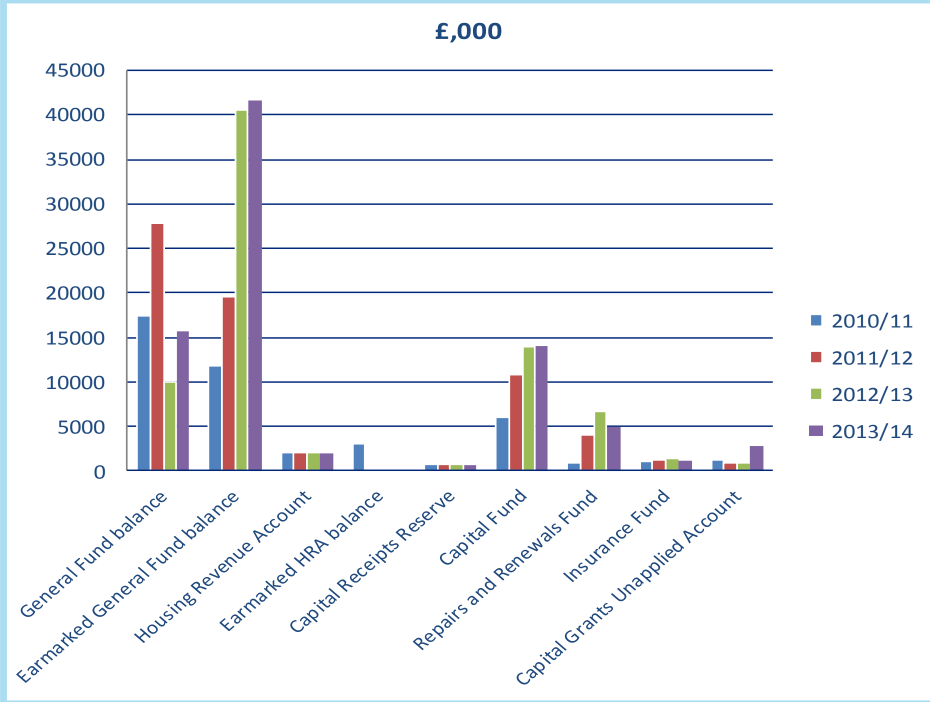
The Council's policy is to hold minimum working balances of £10 million (2% of budget) for the General Fund and £2 million (5% of budget) for the HRA. The level of reserves at 31 March 2014 is in line within this policy.

A total of £41.722 million is being held as "Earmarked General Fund reserves" at 31 March 2014, to provide financing for future expenditure, including:

- £12.000 million to Infrastructure Projects
- £7.476 million to "Six Key Areas for Development"
- £4.512 million to Innovation
- £4.120 million to Devolved Education Management

A capital fund balance of £14.028 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.



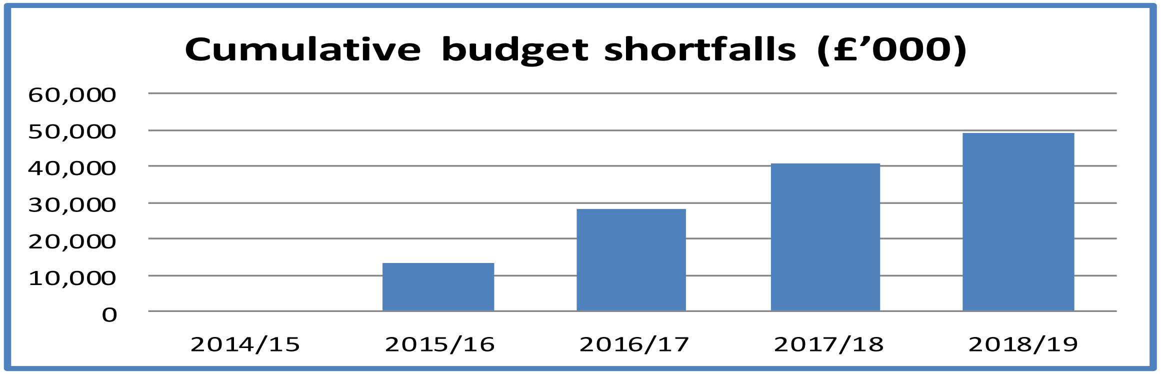
The Council should continue to monitor commitments and expenditure against these earmarked reserves as part of the ongoing budget monitoring to ensure that there are robust Business Plans in place to ensure that these projects are taken forward in accordance with agreed timescales.

5. Best value, use of resources and performance (continued)

Financial outlook

The **2014/15 revenue budget** was approved by the Council on 13 February 2014. This budgeted net expenditure of £517.734 million, incorporated a budgeted surplus of £6.011 million to replenish balances. A number of risks have been identified by the Council when compiling the budget and are noted as being significantly greater than prior years. Some of these are as a result of policy changes such as Welfare Reform, Integration of Health and Social Care and Self Directed Support, whereas others are local risks specific to Aberdeenshire, including recruitment difficulties, capacity to deliver savings from 2015/16 and demographic changes across Aberdeenshire.

The Scottish Government has recently announced indicative grant settlement figures for 2015/16, but no figures have been released at a Council level for 2016/17 onwards. Draft budgets have therefore been prepared on the assumption of a flat cash settlement for all years of the five year budget. Whilst 2014/15 shows a balanced position, significant shortfalls are projected in future years as noted below, with a **cumulative shortfall of £49.1 million** up to 2018/19. From our review of the Council's overall approach to budgeting and its transformation programmes on pages 29 and 30, a significant amount of work is still required to ensure that clear project plans are in place to ensure these savings are achieved to meet these projected shortfalls. **[Appendix 4 – Action Plan]**



The **capital plan** was also approved by the Council at its meeting on 13 February 2014 with total planned expenditure for 2014/15 of £158.681 million. This includes the following significant projects:

- Blythewood Care Home - £7.612 million
- Aberdeen Western Peripheral Route - £23 million
- Ellon Academy - £20.734 million
- Alford Complex - £19.852 million
- Drumoak Primary School - £7.483 million
- Kintore Primary School - £5.89 million
- Kemnay Academy - £5.097 million

In addition, the **housing capital programme**, totalling £46.780 million for 2014/15 was approved. This includes £24.682 million of expenditure against new builds.

The above are being funded by a combination of borrowing, capital grants, use of capital receipts and finance from revenue.

5. Best value, use of resources and performance (continued)

Financial outlook (continued)

Approach to outcome budgeting

In our planning paper, we noted that we would undertake a review of the Council's overall approach to its budget process taking into account the planned outcome based review to assess the arrangements in place for achieving the longer term savings required to balance its budget.

Following the approval of the 2014/15 budget in February 2014, Members agreed for Officers and Councillors to begin work to balance future years of the revenue budget. Officer and Member working groups were established under the structure of the Council's key strategic themes. These groups were tasked with brainstorming ideas of where the Council could make efficiencies in the future. The outputs from these groups is currently being collated with a view to presenting options to the Policy and Resources Committee in November 2014.

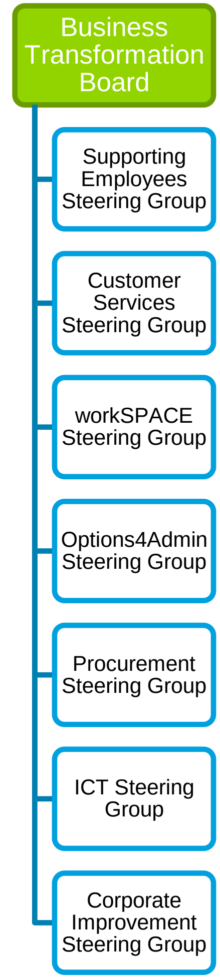
Priority is being given to ensuring that the 2015/16 budget is balanced, with future years being considered separately. While the current and following year budgets are being managed though the use of the more traditional options of achieving efficiencies such as vacancy management and income generation, to achieve the projected savings in the future more radical decisions are required. It is essential that a robust benefits realisation delivery process is established, potentially including a PMO, as a matter of urgency. The Council should also ensure its benefits realisation delivery team are sufficiently resourced in both capacity and capability.
[Appendix 4 – Action Plan]

5. Best value, use of resources and performance (continued)

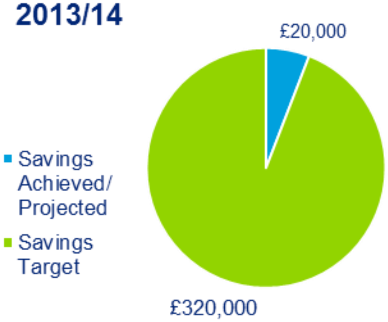
Financial outlook (continued)

In our planning paper, we noted that we would continue to review the arrangements in place to monitor and implement the **transformation projects** currently ongoing, which are being driven by the need to make significant savings over the next few years.

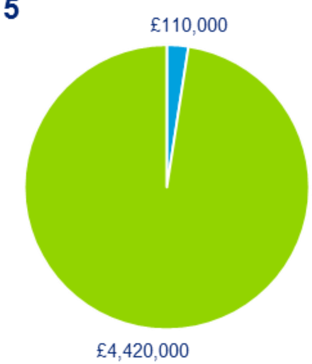
The strategic overview of all projects forming part of business transformation was brought together with a governance structure in place to support corporate improvement and procurement to form one, all-encompassing **Business Transformation Board** (BTB). The Board was chaired by the Director of Business Services and has seven main streams of work. The Board then reports directly into the Management Team and Policy and Resources and Scrutiny and Audit Committees. The responsibilities of the Board have been transferred to the Senior Leadership Team, comprising the Chief Executive and the Directors, which will now formally sit as the BTB on a quarterly basis.



2013/14



2014/15



Recent reporting to the BTB has noted that expected savings from the ongoing transformation projects have not materialised at the pace anticipated partly due to the projects themselves taking longer to come to fruition and partly because post numbers have not been reduced as anticipated. Services need to find alternative ways to make the savings to ensure that the overall budget for the year is achieved. Plans are in place to achieve the overall budget through vacancy management and generation of additional income.

From the benefit tracking reported to the BTB, only 3 benefits have been realised, with 23 identified but yet to be baselined.

The Council needs to ensure that all transformation projects have clear project plans, including tracking of benefits, and timetables in place. [Appendix 4 – Action Plan]

A significant change programme is underway that plans to enhance the coverage, governance and value of the Central Procurement Unit to the wider organisation. It proposes to target changes affecting organisational structure, working practices, data and general performance. This is being taken forward as part of the joint service with Aberdeen City Council and will be managed by the City Councils Programme Management Office (PMO).

5. Best value, use of resources and performance (continued)

Other Issues identified at planning - Welfare Reform

The 2012 Welfare Reform Act brought fundamental changes to the UK Benefits System. With a phased introduction from 1 April 2013, the changes outlined within the Act, impact the majority of existing types of benefit resulting in a significant impact on a large percentage of people in receipt of benefits.

As part of the audit, we have continued to monitor the Council's approach to managing the changes and risks associated with Welfare Reform and the associated impact on financial sustainability and Council service delivery.

The Council has been actively engaging with stakeholders to assess the impact of the changes. Monthly newsletters are issued to provide updates on key activities. Key points noted in the July 2014 survey:

- Aberdeenshire Council's Benefits Section has set about improving its customer service through the provision of online claim forms, starting with the Housing Benefit and Council Tax Reduction Scheme form which went live at the end of May 2013. Online applications for HB/ CTR have not replaced existing methods, including paper claims forms, but have added alternative channels for making a claim. 234 claims were made online in 2013/14.
- A survey was conducted asking about internet usage by HB/ CTR claimants. The results of this survey will be used to identify where further information or support is required.
- Aberdeenshire Council received a significant increase in funding towards discretionary housing payments in 2013/14. Every tenant in Aberdeenshire affected by the social housing size criteria is being encouraged to apply for a discretionary housing payment (DHP) to help cover the reduction in housing benefit.

Deloitte comment:

On the basis of our review, we are satisfied that the Council has developed a clear understanding of the organisational impacts associated with welfare reform and has implemented appropriate mitigations. We will continue to monitor the impact of the reform during the period of our appointment.

We have also considered the implementation of the new Council Tax Reduction scheme from April 2013 and have concluded that this has been implemented in line with the agreed policy.

5. Best value, use of resources and performance (continued)

Other Issues identified at planning- Health and Social Care Integration

Background

As part of the external audit work, we are required to assess use of resources within the Council and delivery of best value. Health and Social Care Integration, from 1 April 2015, represents a significant opportunity to deliver improved best value and outcomes for the citizens of Aberdeenshire but also represents a significant transformation risk which needs to be managed effectively if the benefits envisaged from the integration are to be fully delivered on the ground. Based on our experience of successful health and social integration in England and Northern Ireland, we have assessed the Council's planning arrangements for integration in eight key areas as depicted below.

How **committed** are senior management, and political leaders to integration?

How effective are the **governance arrangements** for integration– specifically **scrutiny** and **accountability** arrangements?

How effective is the Council working with partners in the **involvement of communities** in the integration process?

Has the Council agreed a set of **measures** and **targets** to track progress and demonstrate the impact of integration?

How well are the Council's integration **outcomes** and **actions** evidence-based and how well do they reflect the needs of the area/ communities/ service users?

Has the Council along with its partners set and **agreed priorities**? How committed are they to delivering them?

How well does the Council understand the **resources** needed to deliver integration priorities and how well has it worked with partners to align its funding, assets and staffing in a sustainable framework?

How effective has Council planning been with its partners to **deliver real outcomes and impact** for people and communities?

The Council and the Health Board are progressing an integration scheme under the body corporate model to address these challenges with key work-streams established under the control of the transitional leadership group. Like other Councils in Scotland, significant work remains to be completed to fully address these challenges and achieve the implementation timetable. We are encouraged, however, by the clear commitment, from the Council's leadership to the integration agenda, and will continue to monitor progress against meeting the challenges identified above as integration planning and delivery progresses.

5. Best value, use of resources and performance (continued)

Whole of Government Accounts

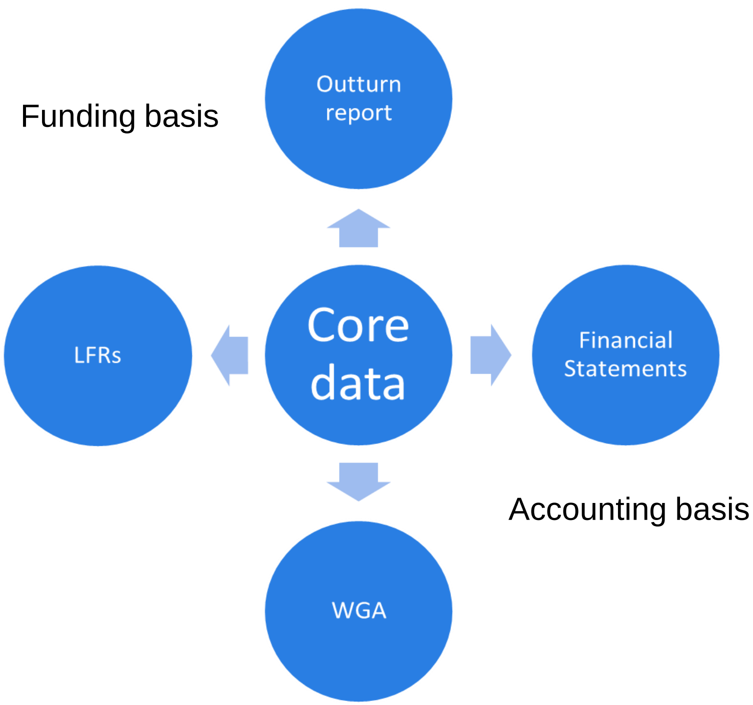
Whole of government accounts (WGA) is the consolidated financial statements for all components of government in the UK.

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

External auditors are required to certify

The 2012/13 WGA was published by the Treasury in June 2014.

The deadline for the draft 2013/14 pack was brought forward to 25 July 2014. This was achieved by the Council.



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 2014/15 and beyond, it is expected that the Treasury will bring forward the timetable for submissions from local authorities to allow the publication of the WGA even earlier. The Council should therefore be looking for ways to make the process part of the standard year-end routine.

5. Best value, use of resources and performance (continued)

Grant claim work

As part of our audit procedures, we have completed our review of the following grant claims / returns by the audit deadlines set by Audit Scotland:

Grant	Deadline	Status	Issues
Safety Camera Partnership Grant	31 July 2014	**Completed**	**None**
Education maintenance allowance	31 July 2014	**Completed**	**None**
Criminal justice social work services grant claim	31 August 2014	**Completed**	**None**
Housing and Council tax benefit subsidy	30 November 2014	**On Target**	**None to date**
Non-domestic rates income return	Mid-February 2015	**On Target**	**None to date**

We are on target to complete all grant claim work in line with Audit Scotland deadlines.

5. Best value, use of resources and performance (continued)

Statutory Performance Indicators (SPIs)

The 2012 Accounts Commission Direction and guidance on auditing SPIs was issued in March 2013 and marks a change in approach for 2013/14. The audit of SPI 1, 2 and 3 is a two stage process:

- Stage 1: Initial stage appraising the arrangements – see below for outcome of this work
- Stage 2: Assessing the quality of Public Performance Reporting (PPR). This will be reported by the Accounts Commission in April/ May 2015.

Statutory duties and responsibilities

Council

The **Local Government Act 1992** lays a duty upon each council to ensure that it has in place such arrangements for collecting, recording and publishing performance information that will allow it to comply with a Direction from the Commission.

Auditor

The appointed auditor's statutory duty in relation to the performance information is set out in the **Local Government (Scotland) Act 1973.** The auditor's duty is to be satisfied that the council "*has made adequate arrangements for collecting and recording information, and for publishing it as required for the performance of their duties*".

Deloitte has considered the Council's arrangement for collecting, recording and publishing accurate and complete information. Overall, we are satisfied that there is a robust process in place.

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 in 2012/13, two indicators were required to be amended as they were found to be incorrect as a result of our testing. Our 2013/14 review has continued to identify errors in the sample reviewed therefore Services should be reminded of the importance of a robust self review process. **[Appendix 4 – Action Plan].** We note that from 2014/15, Internal Audit plan to introduce a rolling review of the indicators.

In June 2014, Audit Scotland reported the findings of its review of Public Performance Reporting (PPR) across Scottish local authorities in 2012/13. 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 24% (2011/12: 34.5%) fully compliant, 71% (2011/12: 55.2%) partially compliant and 5% (2011/12: 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.

5. Best value, use of resources and performance (continued)

National Fraud Initiative

We are required to monitor Councils' participation in the NFI exercise during 2012/13 and into 2013/14. Audit Scotland's national report was published on 26 June 2014 in relation to the 2012/13 exercise and included recommendations for the first time which are copied below, which are relevant for all Councils in Scotland. From our audit work we have noted the following:

Leadership and commitment - Aberdeenshire is committed to NFI. The Benefits Manager continues to be the key contact and monitors input required from other departments.

Planning - All mandatory data sets were submitted on time.

Effective follow-up of matches - Some areas, such as Benefits were followed up straight away, whereas others such as Creditors, Payroll and Blue Badges started later. Once the process began, the Council focused on high quality matches.

Recording and reporting – outcomes are regularly reported to the Benefits Management Team. The Council intend to report to Members once the process is largely complete.

Recommendations

All participants

- Audit Committees, or equivalent, should review the self-appraisal checklist at Appendix 2, Part A to ensure that they are fully informed of the planning and the progress being made by their officers investigating the NFI 2014/15 exercise.
- All public audited bodies participating in the NFI should ensure that they maximise the benefits of their participation in the NFI. In particular, they should consider:
  - whether it is possible to work smarter on the NFI matches; reviewing the suggestions at Appendix 3 should help
  - using the NFI matches in conjunction with alternative matching services from other providers.

Local authorities

- Local authorities should take steps to retain or invest in sufficient capability, in the short and long term, to investigate non housing benefit fraud or corporate fraud, including relevant NFI matches, after the SFIS is introduced.
- Local authorities that administer pension schemes and are not already using more regular data matching to deceased records should consider doing this.

Source: The National Fraud Initiative in Scotland, prepared by Audit Scotland, June 2014

5. 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 January 2014 to update the shared risk assessment, and met with the Chief Executive and the Council's Management Team in February 2014. The AIP Update 2014-2017 was published by Audit Scotland in June 2014 and was presented to the Full Council meeting on 19 June 2014.

The shared risk assessment process was reviewed in 2013, in the context of a significantly changed scrutiny landscape and the evolving public sector reform agenda. Based on the findings of the review, this year's shared risk assessment focused on identifying the council's current position in implementing the Scottish Government's reform agenda. It also placed more emphasis on scrutiny risk in relation to the council's improvement and transformation agenda.

Following on from the previous year's shared risk assessment, and based on discussions held by the LAN in 2013/14, there was no specific area of scrutiny work identified for Aberdeenshire during 2014/15. However, some non-risk based scrutiny was planned.

A further update is planned for later in 2014.

5. Best value, use of resources and performance (continued)

National Performance Reports

In accordance with Audit Scotland guidance, the impact of national performance reports are followed up in a number of ways, including local impact returns and targeted follow-up work.

Local impact returns for '*Health inequalities in Scotland*' (published in December 2012) submitted to Audit Scotland on 31 March 2014

Local impact returns for ''*Major Capital Investment in Councils*" (published 14 March 2013) submitted to Audit Scotland on 22 August 2014.

Targeted follow-up of "*Arms Length External Organisations: Are you getting it right*?" (published in June 2011) report submitted to Audit Scotland on 31 May 2014 and presented to the Scrutiny and Audit Committee in June 2014.

The key recommendations from this report were:

- The inconsistencies between the outside bodies which Members are involved in, as approved by Full Council in January 2013, and the disclosures in the financial statements should be reviewed. This has been addressed in the 2013/14 financial statements.
- As part of the ongoing budget strategy review, the Council should consider the benefits and risks of ALEOs as laid out in the Commission's report In determining "How" the service is to be delivered in the future. **[Appendix 4 – Action Plan]**

The following national reports have been published by Audit Scotland during 2013/14 to date. The Council should ensure that each of these have been considered and action taken where relevant. Details on specific follow-ups will be provided in our planning paper for the 2014/15 audit:

- Maintaining Scotland's roads (May 2013)
- Managing early departures from the Scottish public sector (May 2013)
- Housing in Scotland (July 2013)
- How councils work: an improvement series for councillors and officers – Charging for services: are you getting it right? (October 2013)
- Reshaping care for older people (February 2014)
- How councils work: an improvement series for councillors and officers – Option appraisal: are you getting it right? (March 2014)

6. Audit of Charitable Trusts

6. Audit of Charitable Trusts

Other Matters - Charitable Trusts

From 2013/14, all Scottish Councils who act as sole trustees for any registered charities have to fully comply with the Charities Accounts Regulations. This requires Charities SORP compliant accounts to be prepared for each Charity, and a separate audit of each. Aberdeenshire Council administers 39 such registered charities. The Charities Accounts (Scotland) Regulation 2006 permits connected charities to prepare a single set of accounts. Aberdeenshire Council has taken the view that those registered charities with common trustees are connected, which has reduced the number of separate sets of accounts to 13.

International Standards on Auditing require us to identify and assess the risk of material misstatement and to identify areas of risk that will require focussed consideration. The following are identified significant risks for the charitable trusts

- Carrying value of investments
- Presumed risk over revenue recognition, specifically focused on allocation between restricted and unrestricted funds
- Presumed risk of management override of controls

Our work on these risks is currently ongoing. We will provide a verbal update to the Committee.

6. Audit of Charitable Trusts (continued)

Charitable Trusts

We have audited the financial statements of the following charities:

	Income £	Expenditure £	Net Assets £
Aberdeenshire Educational Trust	92,033	88,470	3,203,393
Anderson and Woodman Library Trust	3,831	2,858	85,827
Andrew Cooper History Prize Fund	2,078	2,074	3,318
Banchory and Mid-Deeside Charitable Trusts (4 connected)	2,109	2,068	6,835
East Garioch Charitable Trusts (2 connected)	2,097	2,061	6,077
Huntly, Strathbogie & Howe of Alford Charitable Trusts (6 connected)	4,043	3,068	107,218
Inverurie and District Charitable Trusts (11 connected)	3,540	2,864	86,518
Kincardineshire Educational Trust	8,286	6,356	164,847
Mcdonald Public Park Endowment	2,306	2,085	8,307
Mearns Charitable Trusts (3 connected)	2,038	2,118	1,753
Mid Formartine Charitable Trusts (2 connected)	2,093	2,058	5,871
Miss A E Scatterty Bequest	2,043	2,027	2,739
Stonehaven and Lower Deeside Charitable Trusts (5 connected)	2,109	1,967	6,916
TOTAL	**128,606**	**120,074**	**3,689,619**

6. Audit of Charitable Trusts (continued)

Charitable Trusts

Observations from our audit work of the charitable trusts

There have been a number of changes required from the draft accounts initially submitted for audit at the end of June and the final accounts. This is mainly due to Council staff not having a full understanding of the requirements of charity accounts. We recommend that all staff involved in the future are given appropriate support and training.
[Appendix 4 – Action Plan]

A number of the trusts have very little movement during the year, with the exception of income from investments. Trustees should ensure that the charity is being actively managed and publicised to ensure that the funds are being applied in accordance with the charity's purposes.
[Appendix 4 – Action Plan]

All investments are either invested in the Council's Loans Fund or invested in by investment managers. The actual investments have not changed for a number of years therefore we recommend that the Trusts review their investment policy to ensure that funds are being invested to obtain the best return.
[Appendix 4 – Action Plan]

- New UKGAAP requirements apply for periods beginning on or after 1 January 2015, therefore restated opening balance are required for the Trust accounts from 1 April 2014. Aberdeenshire Council should therefore should start planning its approach. **[refer to Appendix 5 for further details]**

The Charities and Trustee Investment (Scotland) Act 2005 includes a provision for charities to be re-organised and this needs to be approved by the Office of the Scottish Charities Regulator (OSCR). The Council should advance its review of potential amalgamations of its current Charities, as recommended in our 2012/13 annual report, closely liaising with Office of the Scottish Charity Regulator (OSCR), to ensure that the administrative impact of this change is minimised.
[Appendix 4 – Action Plan]

7. Insights - risk management and internal control

7. Insights - risk management and internal control

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	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. We have reviewed the final accounts process and confirmed that the data from the internal valuer has been used.
Bad Debt Provision	Assumptions included in the bad debt provisions calculations are reviewed as part of the final accounts close down process. We have reviewed the final accounts process and confirmed that the calculations and assumptions have been reviewed. The Council Tax bad debt provision has been reviewed against historical collection rates, however, the basis of provision for debts over 4 years old was not clearly considered. Additional controls should therefore be put in place to ensure that the provisions are based on robust and current data.

No issues noted

Satisfactory – minor observations noted

Requires improvement

Significant improvement required

7. Insights - risk management and internal control (continued)

Key controls over significant risks

Significant Risk	Control
Revenue Recognition	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. We have reviewed the reconciliations during 2013/14 confirming that they are reviewed on a regular basis.
Management Override	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. We have tested all journal entries of audit interest posted in the year and confirmed the appropriateness of the journals posted including approval.

7. Insights - risk management and internal control (continued)

Prior year observations

We have followed-up our 2012/13 management letter and summarise below the progress made against each of the recommendations. The more significant outstanding recommendations have been included in the action plan at **Appendix 4**.

Key Areas	Fully Implemented	Partially Implemented	Not Implemented	Not yet Due
Year-end close process	2	2	1	1
Detailed entries	2	1	1	0
Fraud awareness	1	0	0	0
2011/12 issues not fully implemented	5	6	3	0
2011/12 issues not due in 2012/13	1	1	3	0
Total	**11 (37%)**	**10 (33%)**	**8 (27%)**	**1 (3%)**

While progress has been made, there are still a number of key recommendations that need to be fully addressed, in particular:

- Year-end close process – while improvements were made to the working papers and internal review process performed on the financial statements, there is still scope to make improvements in the quality of working papers and the high level review. The progression of the amalgamation of the charitable trusts is also critical to reduce the administrative burden these currently have on both the council staff and the audit team.
- Issues raised in our 2011/12 letter in relation to bank reconciliations and bad debt provisions were not fully addressed at the time the accounts were passed for audit. The resolution of the issues around the Council's asset register system also remain to be resolved.
- In 2011/12 we raised a number of ICT related issues around information handling and security, back-ups and system administration and passwords. While progress has been made on these, this has been slower than originally planned and have yet to be fully implemented.
- Recommendations made relating to the payroll system have not yet been implemented due to the delays in implementing the new system.

7. Insights - risk management and internal control (continued)

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 and adjusted our audit approach as deemed appropriate. The results of this were:

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

No issues were identified with the work performed by internal audit

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

From our review of the internal audit reports issued during 2013/14, we have noted a number of “major” graded recommendations, in particular issues identified from internal audit’s review of year-end payments which raised some significant concerns around lack of compliance with financial regulations

We have recommended that this be specifically referred to in the **Annual Governance Statement**.

From 2014/15, ISA 610, “using the work of internal audit”, specifies that the use of internal auditors to perform audit procedures under the direction, supervision and review of the external auditor is now prohibited. This should have no impact on the work we currently use to shape our audit procedures.

8. Responsibility Statement

8. Responsibility Statement

Our report is designed to help you meet your governance duties

What we report

Our report is designed to help the Scrutiny and Audit Committee and the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 to communicate with you regarding your oversight of the financial reporting process and your governance requirements. Our report includes:

- Results of our work on key audit judgements and our observations on the quality of your Annual Report
- Our internal control observations
- Other insights we have identified from our audit and in following our audit plan, Audit Quality Promise and Insight Plan

What we don't report

- As you will be aware, our audit was not designed to identify all matters that may be relevant to the Council.
- Also, there will be further information you need to discharge your governance responsibilities, such as matters reported on by management or by other specialist advisers.
- Finally, our views on internal controls and business risk assessment should not be taken as comprehensive or as an opinion on effectiveness since they have been based solely on the audit procedures performed in the audit of the financial statements and the other procedures performed in fulfilling our audit plan.

The scope of our work

- Our observations are developed in the context of our audit of the financial statements.
- We described the scope of our work in our audit plan and the supplementary "Briefing on audit matters" circulated to you on 29 January 2014.

We welcome the opportunity to discuss our report with you and receive your feedback.

Deloitte LLP

Deloitte LLP

Chartered Accountants

Edinburgh

12 September 2014

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.

8. Responsibility Statement (continued)

Responsibilities

Management responsibility

It is the responsibility of the Council and the Head of Finance, as Responsible Officer, to prepare the financial statements in accordance with the CIPFA/ LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. This means:

- acting within the law and ensuring the regularity of transactions by putting in place systems of internal control to ensure that financial transactions are in accordance with the appropriate authority;
- maintaining proper accounting records;
- preparing financial statements timeously which give a true and fair view of the financial position of the Council and its expenditure and income for the period ended 31 March 2014; and
- preparing an Explanatory Foreword, an Annual Governance Statement and a Remuneration Report.
- .

Auditor's responsibilities

We audit the financial statements and the part of the Remuneration Report to be audited and give an opinion on:

- whether they give a true and fair view in accordance with applicable law and the 2013/14 Code or the state of the affairs of the body as at 31 March 2014 and of the income and expenditure of the body for the year then ended;
- Whether they have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2013/14 Code; and
- Have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

Appendices

Appendix 1: Audit adjustments and disclosure misstatements

Uncorrected misstatements

There are five 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 £'000
Factual misstatements			
Debit balances within creditors (£123k). Nil impact on net assets or reserves.	-	-	-
Council Tax bad debt provision. Cash received post year-end where 100% provision has been made.	252	(252)	(252)
Invoices for work done during March 2014 not accrued in error (£564k). As these relates to capital invoices these have a nil impact on net assets or reserves.	-	-	-
Interest receivable (£125k) has been incorrectly netted off against interest payable. Nil impact on net assets or reserves.	-	-	-
Judgemental misstatement			
Council Tax bad debt provision. Judgemental misstatement due to overly prudent provision for debts over 4 years old.	1,187	(1,187)	(1,187)
Total	**1,439**	**1,439**	**1,439**

Appendix 1: Audit adjustments and disclosure misstatements (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	
Note 7 – A disclosure misstatement was identified where £1.303m was incorrectly included within other expenses rather than employee costs in error. This was due to a manual inputting error.	This has been adjusted in the final accounts.
Note 28, Short Term Debtors – A disclosure misstatement was identified where £1.969m debtor due from Nestrans was incorrectly classified as "other entities and individuals". This should be allocated to "other local authorities".	This has been adjusted in the final accounts.
Prior year mis-classifications of income in Education Services (£5.976m), Cultural and Relates Services (£6.304m), Roads and Transport Services (£6.257m), incorrectly netted off against expenditure.	These has been adjusted in the final accounts.
Mis-classification of income in Education Services (£0.859m), Roads and Transport Services (£1.581m) and Central Services (£0.257m) incorrectly netted off against expenditure.	These has been adjusted in the final accounts.
The Council has not fully complied with the requirements of IFRS 7, Financial Instruments: Disclosure, specifically the requirement to disclose the aging of impaired receivables.	Included within management representation letter.

Appendix 2 - 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.
Fees	The audit fee for the year has been agreed at £433,000 (inclusive of VAT) and is within the indicative fee range set by Audit Scotland.
Non-audit services	In our opinion there are no inconsistencies between APB Revised Ethical Standards for Auditors and the company's policy for the supply of non-audit services or of any apparent breach of that policy. There were no non audit services fees charged in relation to Deloitte in the period from 1 April 2013 to 31 March 2014.
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. We are not aware of any relationships which are required to be disclosed.

Appendix 3: Fraud considerations

Characteristics

- Misstatements in the financial statements can arise from either fraud or error. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional.
- Two types of intentional misstatements are relevant us as auditors – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets.
- We are aware that management has the following processes in place in relation to the prevention and detection of fraud:
- The Financial Regulations include a section on the Prevention and Detection of Fraud.
    - All members and employees are expected to comply with the Council's Disclosure of Information (Whistleblowing) and Anti-fraud and Corruption Policies.
    - The Council has a team of 2.5 full time equivalent Benefit Enquiry Officers who perform enquiries and investigations on receipt of a fraud case file. A Code of Conduct is in place which all offices engaged in the investigation of alleged Benefits fraud must follow.
    - The Council is a member of National Anti Fraud Network (NAFN) which provides a number of services to assist the Council in its fraud investigations.

Responsibilities

Your responsibilities

The primary responsibility for the prevention and detection of fraud rests with management and those charged with governance, including establishing and maintaining internal controls over the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations.

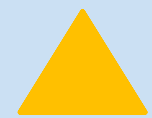
Our responsibilities

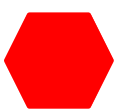
- As auditors, we obtain reasonable, but not absolute, assurance that the financial statements as a whole are free from material misstatement, whether caused by fraud or error.
- As set out in Section 2 above we have identified the risk of fraud in revenue recognition and management override of controls as a key audit risk for your organisation.

Appropriate arrangements are in place for maintaining standards of conduct and the prevention and detection of corruption.

Appendix 4 - Action Plan

Our recommendations for improvement

Recommendation	Management response	Assessment
1. Property, Plant and Equipment		
1.1 Assets classified as held for sale We recommend that management review its processes for determining when assets should be classified as held for sale to ensure that they meet definition in the Code , including the sale being "highly probable" within 12 months.	The suggested measure is the one of measures we adopt i.e. that a sale is "highly probable within 12 months". Of course, this is not a guarantee that a sale will take place and there will be occasions when a sale does not take place within the period in question. We will review our approach to this in the light of the experience from the past year. **Responsible Officer: Estates Manager** **Target completion date: 30 March 2015**	
1.2 Modern Equivalent Asset We consider that the Finance team needs to have a continued ongoing dialogue with the valuer on this issue as the valuations should take account of all MEA considerations including the size of a modern Aberdeenshire Council estate.	We will work the valuer to agree a programme of review on assets where the MEA considerations have not been used. **Responsible Officer: Corporate Finance Manager** **Target completion date: 31 March 2015 (agree programme of review)**	
1.3 Componentisation Threshold We recommend that the Council review the potential number of assets that would be subject to componentisation next year and adjust the threshold accordingly.	Following completion of school valuation review consideration will be given to the thresholds suitability. **Responsible Officer: Corporate Finance Manager and Chief Accountant** **Target completion date: 31 March 2015**	

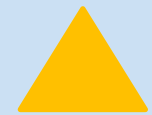
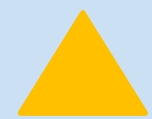
 Significant improvement required

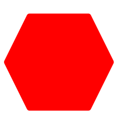
 Requires improvement

 Satisfactory – minor observation

Appendix 4 - Action Plan (continued)

Our recommendations for improvement (continued)

Recommendation	Management response	Assessment
1.4 Title Deeds A review should be undertaken to ensure that the Council hold all title to those assets held on the Council's Balance Sheet and that the Balance Sheet is complete and accurate.	External audit asked for a sample of twenty five titles. Twenty were located and in relation to the remainder, copies of these can be obtained from the Registers of Scotland. This demonstrates the Council is in the position to confirm that on balance it will hold the title deed for its property assets. To check all the assets on the register against the title deeds, however, would have significant resource implications which greatly outweigh the risk. **Responsible Officer: Legal Services Manager (Commercial)** **Target completion date: Not applicable**	
2. Provisions		
2.1 Council Tax Bad Debt Provision We continue to recommend that the Council revisit its methodology for calculating the bad debt provision to ensure that it is based on a robust process.	Agreed. A review will be undertaken over the coming months. **Responsible Officer: Corporate Finance Manager** **Target completion date :31 March 2015**	
2.2 Landfill site obligations We recommend that the Council follow up on any guidance issued by LASAAC to ensure that the obligations for landfill sites are being treated in accordance with the guidance.	A project team are examining the whole decommissioning issue and the project plan is due for complete by 31 March 2015. **Responsible Officer: Corporate Finance Manager** **Target completion date: 31 March 2015**	



Significant improvement required

Requires improvement

Satisfactory – minor observation

Appendix 4 - Action Plan (continued)

Our recommendations for improvement (continued)

Recommendation	Management response	Assessment
3. Charitable Trusts		
3.1 Staff Training We recommend that all staff involved in preparing the accounts for charitable trusts in the future are given appropriate support and training.	Agreed staff training will be organised and a thorough review undertaken of the accounts for the charitable trusts. **Responsible Officer: Corporate Finance Manager** **Target completion date: 31 March 2015**	
3.2 Managing trusts Trustees should ensure that the charity is being actively managed and publicised to ensure that the funds are being applied in accordance with the charity's purposes.	It is thought more prudent to put in place any new management arrangements once the amalgamation of charitable trusts has been implemented in terms of 3.3 below, This is on the basis that currently a number of these trusts only contain small amounts of funds so any management costs involved may outweigh the benefits and also, that once the amalgamations takes place, the number of trusts to be managed should be significantly reduced so the relative costs would be less. **Responsible Officer: Head of Legal and Governance** **Target completion date: 31 December 2016**	

Significant improvement required

Requires improvement

Satisfactory – minor observation

Appendix 4 - Action Plan (continued)

Our recommendations for improvement (continued)

Recommendation	Management response	Assessment
3. Charitable Trusts		
3.3 Restructuring The Council should advance its review of potential amalgamations of its current Charities, as recommended in our 2012/13 annual report, closely liaising with Office of the Scottish Charity Regulator (OSCR), to ensure that the administrative impact of this change is minimised	Work is actively being undertaken on an application for the reorganisation of the Council's charitable trusts, which have been identified as suitable for reorganisation. Legal & Governance are currently in close liaison with OSCR on this task. Once scrutiny of the constitutions of the charitable trusts which the Council hold has been completed, OSCR's guidance estimates that the reorganisation process will take around six months. It is anticipated that we will be in a position to complete this work by July 2016. **Responsible Officer: Legal Services Manager (Governance) and Corporate Finance Manager** **Target completion date: 31 July 2016**	
3.4 Investment Policy The Trusts should review their investment policy to ensure that funds are being invested to obtain the best return.	Agreed. The investment strategy will be reviewed. **Responsible Officer: Corporate Finance Manager** **Target completion date: 31 March 2015**	

Significant improvement required

Requires improvement

Satisfactory – minor observation

Appendix 4 - Action Plan (continued)

Our recommendations for improvement (continued)

Recommendation	Management response	Assessment
4. Reporting		
4.1 Financial statements – good practice guide for local authorities Aberdeenshire Council should consider this guidance in reviewing the format and content of its financial statements going forward.	Agreed. The guidance will be reviewed, as will the format and content of the accounts for 2014/15. **Responsible Officer: Chief Accountant** **Target completion date: 28 February 2015**	Satisfactory – minor observation
4.2 Future changes to the Code (Transport Infrastructure) The Council should establish information collection arrangements to allow them to apply full retrospective restatement. This will require changes to the way these assets are recorded within the fixed asset register. In view of the impending move to a new fixed asset register during 2014/15, this is an ideal opportunity to cleanse and update the data held.	Associated information will be collated to allow for the restatement of 2014/15 balance sheet by 30 September 2015. **Responsible Officer: Corporate Finance Manager** **Target completion date: 30 September 2015**	Requires improvement
5. Statutory Performance Indicators Services should be reminded of the importance of self review to ensure that the published data is accurate.	A meeting will be arranged with each Service SPI lead to review processes for compiling and reviewing data prior to Assurance Statements for SPIs being signed off. Workshops will be arranged with officers responsible for compiling SPIs to ensure procedures and processes are understood for compiling individual SPIs accurately. **Responsible Officer: Performance Manager** **Target completion date: 30 April 2015**	Satisfactory – minor observation

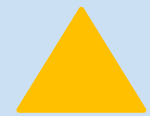
Significant improvement required

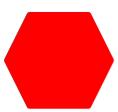
Requires improvement

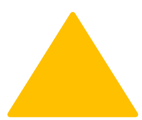
Satisfactory – minor observation

Appendix 4 - Action Plan (continued)

Our recommendations for improvement (continued)

Recommendation	Management response	Assessment
6. Year-end working papers		
6.1 Back-up and internal review While improvements were noted in 2013/14, the finance team should ensure that appropriate back-up documentation is provided to support the financial statements, including clear explanations on movements and that a comprehensive high level analytical review is performed on all CIES and Balance Sheet items to ensure that all significant movements are understood.	Work will be undertaken to establish best practice for working papers, file structures and reviewing methods. This will include liaising with external audit and other local authorities. **Responsible Officer: Chief Accountant** **Target completion date:30 June 2015**	
6.2 Standardisation of reporting As recommended previously, given the various levels of reporting now required by the Council, consideration should be given to standardising, streamlining and simplifying the close down process. This should include amending the ledger structure to allow more direct reporting from the ledger in the format required for the financial statements, with a reduced level of manual intervention.	The process of standardising the completion of various returns commenced last financial year. However, due to the complexity of the returns, and differing formats, this is an exercise that is likely to take some time to complete. A review of coding structures is underway with a view to implementing the new structure from 1 April 2015. This means that it will not be until the 2015/16 accounts are complete that the full benefits of the review will be realised, although some improvements should be realised before then. **Responsible Officer: Chief Accountant** **Target completion date: 30 November 2016**	

 Significant improvement required

 Requires improvement

 Satisfactory – minor observation

Appendix 4 - Action Plan (continued)

Our recommendations for improvement (continued)

Recommendation	Management response	Assessment
6.3 Fixed Asset Register As recommended previously, the Council should liaise with its software provider in relation the Fixed Asset Register to ensure that the system can produce the required data for the financial statements and reduce the need for detailed manual calculations.	The procurement process is underway with a view to implementing a new system by December 2014. **Responsible Officer: Corporate Finance Manager** **Target completion date: 31 March 2015**	
6.4 Reconciliation of Fixed Asset Register The Fixed Asset Register should be updated and reconciled to the General Ledger on a regular basis, for example monthly or quarterly. While valuations are only prepared once a year, the register should be regularly updated for any additions and disposals throughout the year to reduce the level of work required at the year-end.	The ease with which this can be done will depend on the roll over arrangements within the new fixed asset register. **Responsible Officer: Corporate Finance Manager** **Target completion date: 30 September 2015**	

Significant improvement required

Requires improvement

Satisfactory – minor observation

Appendix 4 - Action Plan (continued)

Our recommendations for improvement (continued)

Recommendation	Management response	Assessment
7. Budget strategy review		
7.1 Consideration of ALEOs As part of the ongoing budget strategy review, the Council should consider the benefits and risks of ALEOs as laid out in the Commission's report In determining "How" the service is to be delivered in the future.	In any circumstances where the Council may be considering an Alternative Delivery Model for any of its services or functions, it will have regard to the findings of the Audit Commissions report on ALEOs **Responsible Officer: Director of Business Services** **Target completion date: Ongoing**	
7.2 Benefits realisation process It is essential that a robust benefits realisation delivery process is established, potentially including a PMO, as a matter of urgency. The Council should also ensure its benefits realisation delivery team are sufficiently resources in both capacity and capability.	The formalisation of a PMO is currently being discussed with the Head of Commercial & Procurement Services. This will enhance project management and benefits realisation capabilities. At present all savings resulting from projects are reported through the revenue budget monitoring process. **Responsible Officer: Head of Finance** **Target completion date: 30 April 2015**	

Significant improvement required

Requires improvement

Satisfactory – minor observation

Appendix 4 - Action Plan (continued)

Our recommendations for improvement (continued)

Recommendation	Management response	Assessment
7.3 Transformation Projects The Council needs to ensure that all transformation projects have clear project plans, including tracking of benefits, and timetables in place.	Project governance arrangements exist for all of the transformation projects and project sponsors are responsible for ensuring, with project managers, that these are followed. The Change Agents Forum monitors and reviews these arrangements together with the tracking of benefits. Discussions are ongoing in relation to establishing a PMO which will take on board this responsibility and have an objective overview of the transformation programme. **Responsible Officer: Director of Business Services** **Target completion date: Ongoing**	
8. Follow-up of Actions		
8.1 The Council should ensure that all recommendations raised by either internal or external audit are followed up and actioned in accordance with the agreed timetable.	All Services have been encouraged to establish monitoring systems to track progress with recommendations raised by internal or external audit. Internal audit recommendations in particular are monitored closely by the appropriate Policy Committee and by the Scrutiny and Audit Committee at every meeting (i.e. a minimum of 6 times per year). **Responsible Officer: Director of Business Services** **Target completion date: Ongoing**	

Significant improvement required

Requires improvement

Satisfactory – minor observation

Appendix 4 - Action Plan (continued)

Our recommendations for improvement (continued)

Recommendation	Management response	Assessment
9. ICT		
9.1 IT Capacity As reported previously, the Council should ensure that the new ICT strategy and road map covers capacity and performance management. While the overarching strategy is now in place, individual applications and infrastructure strategies have still to be developed.	Overarching ICT Strategy developed and specific Applications and Technology Strategies are drafted and being reviewed. Final strategy documents will be submitted for approval at November Policy and Resource Committee. **Responsible Officer: Head of ICT** **Target completion date: 30 November 2014**	
9.2 Back-ups As reported previously, as part of the new ICT strategy, encryption of back-ups is required to be reviewed as the length of time to undertake the backup should not be the key reason why this is not carried out. If the Council decides that they can live with the risk then this should be documented in their risk register. Ledger system back-up should be taken off site on a daily basis to ensure that in the event of an incident, the data is not one week out of date. We understand that the new back up solution has been procured and is in the process of being implemented. The options for encryptions therefore need to be considered as part of this.	New backup solution is in place for the new Microsoft Exchange environment (phase 1). Work is underway to migrate existing corporate servers (phase 2) with the migration of curricular servers to follow by end December 2014 (phase 3). Encryption is available in the new solution and will be assessed following the full implementation is complete. **Responsible Officer: Head of ICT** **Target completion date: 31 January 2015**	

Significant improvement required

Requires improvement

Satisfactory – minor observation

Appendix 4 - Action Plan (continued)

Our recommendations for improvement (continued)

Recommendation	Management response	Assessment
10. Payroll As part of the implementation of the new ERM system, the recommendations made in our previous report covering: • Electronic authorisation • Independent checking of new starts added to the system • Confirmation of changes in bank details	Due to some complex technical issues, unfortunately it will not been possible to implement the new ERM system in 2014. The project team are working closely with the ICT company to resolve the problems and a revised project plan is being developed looking at implementation in 2015 which will address these payroll recommendations. **Responsible Officer: Head of HR&OD** **Target completion date: 2015**	

Significant improvement required

Requires improvement

Satisfactory – minor observation

Appendix 5: Future developments

Additional information on current and future technical developments

Transport infrastructure assets

The 2016/17 Code will adopt the measurement requirements of the Code of practice on transport infrastructure assets, and require highways to be measured on a Depreciated Replacement Cost basis.

CIPFA has issued **LAAP Bulletin 100: Project plan for implementation of the measurement requirements for transport infrastructure assets by 2016/17** and seeks to identify the key areas and milestones which bodies should take into consideration in developing their implementation plans.

It is essential that finance, asset management practitioners and engineering professionals work together to develop and action their project plan as soon as possible in order to achieve successful implementation, although it is likely that the finance professionals will take the lead on the accounting issues.

Councils should discuss their project plan with their external auditors and agree review timetable.

The Council should establish information collection arrangements to allow them to apply full retrospective restatement. This will require changes to the way these assets are recorded within the fixed asset register. In view of the impending move to a new fixed asset register during 2014/15, this is an ideal opportunity to cleanse and update the data held.

[Appendix 4 – Action Plan]

The Local Authority Accounts (Scotland) Regulations 2014 were laid before parliament on the 7th July 2014. These replace the 1985 regulations in respect of local authority annual accounts with effect from 2014/15.

Finance circular 7/2014, issued by the Scottish Government, provides guidance on the new regulation, including an explanation of the changes from the consultation draft.

The Council should ensure that is has arrangements in place to comply with the regulations from 2014/15.

FRS 102 “The Financial Reporting Standard Applicable in the UK and Ireland” was published in March 2013 and replaces current UK GAAP. For periods beginning on or after 1 January 2015, charities will need to move to FRS 102.

A new Charities SORP will assist in interpretation of the new standard and a consultation draft was published July 2013 and the consultation closed on 4 November 2013. Early adoption of the SORP or FRS 102 will not be possible. The revised SORP is modular in approach and amongst other changes sets out a simplified SOFA, and place greater emphasis on the disclosures relating to risk management and going concern in the trustees report. Further details can be found in the charities alert July 2013.

(www.deloitte.co.uk/charitiesandnotforprofit)

Appendix 5: Future developments (continued)

Additional information on current and future technical developments (continued)

Stay tuned online: Internet-based corporate reporting updates

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

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

Our range of publications

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

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

Audit podcasts

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

IASPlus

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

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

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