Final report to the Members of the Council and the Controller of Audit on the 2015/16 audit

13 September 2016

Contents

Our final report

Appendices

A reminder of our audit plan:

- Materiality: £6,900k (2014/15: £6,300k). This has increased slightly from our projected £6,600k in our planning report.
- Performance materiality: £6,210k (2014/15: £5,670k).
- Threshold for reporting misstatements: £138k (2014/15: £126k).
- Significant risks over valuation of property assets; council tax debtor bad debt provisions; revenue recognition and management override of controls.
- In line with prior years and our audit plan, we have not placed any reliance on controls and our audit work was fully substantive.
- We have not identified any additional significant risk areas since our plan was issued.
- There have been no other changes to our audit plan presented to you in February 2016.

Partner introduction

Partner introduction

Overview of responsibilities

I have pleasure in presenting our final report to the Council for the 2015/16 audit.

As set out in our plan presented to the Scrutiny and Audit Committee in February 2016, we have early adopted the requirements of the new Code of Audit Practice which comes into force for the 2016/17 audits. A reminder of the requirements is set out below.

Financial Statements

Provide an opinion on the financial statements and the regularity of transactions.

Annual Reports

Review and report on the other information such as annual governance statement, management commentaries, remuneration reports.

Public reporting

Audit plans, the principal audit outputs arising from audit plans and any other outputs on matters of public interest will be published on Audit Scotland's website.

Public Sector audit dimensions

Wider scope reporting covering financial sustainability, financial management, governance & transparency and value for money.

Audit quality is our number one priority. When planning our audit we set the following audit quality objectives:

- **A robust challenge of the key judgements taken in the preparation of the financial statements.**
- **A strong understanding of your internal control environment.**
- **A well planned and delivered audit that raises findings early with those charged with governance.**

Partner introduction (continued)

Financial statement audit and annual report

Financial statement audit	

Conclusions from our testing	• The key judgements and areas of audit focus in the audit process related to:
	  • valuation of property assets;
	  • calculation of the council tax bad debt provision; and
	  • revenue recognition (being completeness and accuracy of council tax and housing rent income and accuracy of other government grants received at a service level).
	• As mandated by Auditing Standards, a significant risk has also been identified in relation to management override of controls.
	• A summary of our work on the significant financial statements risks is provided in the dashboard on page 6.
	• We have identified three uncorrected misstatements as detailed in the Appendix. All of these are immaterial.
	• Based on the current status of our audit work, we anticipate issuing an unmodified audit opinion.

Insight	• We have raised a number of insights from our current year audit work which are discussed throughout the report and summarised in the action plan in the **Appendix**. • We have also followed up our prior year action plan and noted that while progress has been made on some of the actions, a number are only partially implemented, as detailed in the **Appendix**. Management should ensure that achievable timescales are agreed so that these actions are implemented in a timely manner.

Status of the audit	• The audit is substantially complete subject to the completion of the following principal matters:
	  • Fixed Asset Register opening balances reconciliation;
	  • Supporting documentation for Asset Decommissioning provision;
	  • Conclusion of creditors testing;
	  • Audit of WGA return;
	  • Finalisation of quality control procedures;
	  • Receipt of updated charities financial statements;
	  • Receipt of signed management representation letter; and
	  • Our review of events since 31 March 2016.

Annual report	
Overall conclusion	• We have read the Management Commentary in full in order to assess whether it is in line with our understanding of the Council and complies with the 2014 Regulations. No exceptions noted. • We proposed a number of recommended changes to the draft Annual Governance Statement to ensure that it is fully compliant with the best practice, which have been updated in the revised financial statements. • We are satisfied that the remuneration report has been prepared in accordance with the regulations and is consistent with the findings of our audit.

Partner introduction (continued)

Significant financial statements risk dashboard

Presumed Fraud risk per Auditing Standards	Controls approach and findings	Consistency of judgements with Deloitte expectations	Comment
Valuation of property assets			
✗	Evaluate design / implementation of key controls. No controls reliance. No significant observations.	●	Revaluations of PPE are based on methodology and assumptions adopted by the Council's internal valuer. The Council is required to hold property assets within PPE at a modern equivalent use valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value. We are satisfied that the correct guidance has been followed, however we have noted some insights which have been raised for management's consideration, see **Appendix - Action Plan**. The insights are recommendations to improve the valuation process, however these issues do not have a material impact on the financial statements.
Council Tax bad debt provision			
✗	Evaluate design / implementation of key controls. No controls reliance. No significant observations.	●	There is significant judgement and complexity around debtor provision calculations. There is a risk that the valuation of provisions is not appropriate and assumptions underpinning calculations are not appropriate and supportable. We have noted that the Council has taken on board our prior year recommendation and has performed a review of the provision part way through the year, however we continue to recommend that this is done on a more regular basis, see **Appendix - Action Plan**. We are satisfied the Council Tax Bad Debt Provision has been calculated appropriately for the current year.
Revenue recognition			
✓	Evaluate design / implementation of key controls. No controls reliance. No significant observations.	●	We have noted no issues with the completeness and accuracy of revenue from Council Tax and Housing Rents. We have also noted no issues with the recognition of other government grants received at a service level.
Management override of controls			
✓	Evaluate design / implementation of key controls. No controls reliance. No significant observations	●	We have noted no issues with journal entries and other adjustments made in the preparation of the financial statements. Our review of accounting estimates for bias that could result in material misstatement due to fraud noted no issues.

Overly prudent, likely to lead to future credit ⊖ ⊖ ● ⊕ ⊕ Overly optimistic, likely to lead to future debit.

Partner introduction (continued)

Public sector audit dimensions

We have commented below on the public sector audit dimensions with regard to Aberdeenshire Council:

Financial management	The final outturn position reported a £4.784 million use of reserves, resulting in an underspend of £7.239 million against an overall budget of £550.022 million. Variances were reported to the Policy and Resources Committee throughout the year, with a final report to the full Council and Scrutiny and Audit Committee meetings in June 2016. We have noted an improvement in comparison with 2014/15 in terms of accuracy of reporting during the year, with the final results being in line with that previously reported to elected members. In addition, a number of the variances have arisen as a result of changes which would be unforeseeable at the time the budget was set. However, there is still scope for the Council to consider whether the budget process and forecasting is sufficiently robust, taking into account historical trends. 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 2016 is in line within this policy, although significantly above this at £17 million. The Section 95 Officer holds a senior position within the Council's management team, being the Head of Finance, and has full authority. No issues noted.
Financial sustainability	Financial sustainability continues to be one of the most significant challenges and risks for Aberdeenshire Council. Whilst 2015/16 shows a balanced position, significant shortfalls are projected in future years with a cumulative funding gap of £45.5 million up to 2020/21. In the absence of settlement figures for future financial years, the Council has chosen not to apply the savings identified within the Medium Term Financial Strategy (MTFS) to these years and therefore they remain out of balance. The Council is therefore reporting a balanced budget in the short term, but is taking the opportunity to consider longer term service re-design and improvement through the MTFS. Our review of budget papers presented to elected members has seen some evidence of scenario planning through the consequences and implications section of the MTFS papers, however there is still little detailed analysis of demand, costs or risks. While some progress is being made in terms of long term financial planning through the MTFS, we continue to have some concerns that the pace and scale of delivery is not yet sufficient to fully meet the Council's objectives and address its longer term financial challenges. In addition, as reported through the Local Scrutiny Plan, it is unclear whether the opportunities afforded by health and social care integration, in terms of new, more efficient and effective ways of service delivery, are in the process of being realised or being progressed as a matter of urgency. From our targeted follow up work of Audit Scotland's national report on Workforce Planning, which is key to achieving long term financial sustainability, we noted that there is scope to improve the clarity of how workforce planning is integrated into the whole planning process as there is a risk that the current process is not fully joined up.

Partner introduction (continued)

Public sector audit dimensions (continued)

Governance and transparency	The Council and its Committees met regularly throughout the year to oversee governance and performance monitoring. In June 2015, political change resulted in the Council now being led by a new administration, comprising the 28-member SNP group and the 'Progressive Alliance' containing the two Scottish Labour Councillors and the two Progressive Independent Councillors. This resulted in the Council appointed two Co-Leaders. Councillor Martin Kitts-Hayes has since resigned as a Councillor on 31 August 2016 and Councillor Richard Thomson was appointed as Leader of the Council on 1 September 2016. No changes to the Council Plan or our audit plan have been made as a result of these changes. The Council is progressing its Future Governance review incorporating a review of all aspects of its decision making structure, with a planned implementation date of 5 January 2017. From our review of the internal audit plan for 2015/16 and audit reports, we are satisfied that there are appropriate systems of internal control in place and no significant weaknesses have been identified. Appropriate disclosure has been made in the annual governance statement of issues identified from the work of internal audit and action being taken. We have continued to note a number of "major" graded recommendations, in particular issues identified from internal audit around lack of compliance with financial regulations. This has been a recurring theme and highlighted by the Scrutiny and Audit Committee, with a special meeting of the Committee being held on 24 March 2016 to discuss this topic in detail. This included a detailed analysis of the common compliance breaches which we understand are being considered as part of the financial regulations update, which forms part of the "Future Governance" review noted above. We are comfortable with the fraud arrangements in place and confirm we have not been made aware of any financially significant frauds in the year. Further work is however required to fully comply with the requirements of the NFI exercise, with a number of matches from the 2014/15 exercise still to be investigated. We have identified no issues with regard to the arrangements for maintaining standards of conduct and the prevention and detection of corruption.
Value for money	We have considered the adequacy of the Council's arrangement for collecting, recording and publishing accurate and complete information in relation to the Statutory Performance Indicators and noted no issues. We have also noted that, while still at early stages, it is clear that the Council are aware of the requirements in relation to the Community Empowerment Act and is making plans to develop policies and strategies.

Jim Boyle
Audit Partner

Scope, nature and extent of audit

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 and 'value for money'.

Our core audit work as defined by Audit Scotland comprises:

- Providing the Independent Auditor's Report on the financial statements (and any assurance statement on consolidation packs);
- Providing the annual report on the audit addressed to the body and the Controller of Audit;
- Communicating audit plans to those charged with governance;
- Providing reports to management, as appropriate, in respect of the auditor's corporate governance responsibilities in the Code (including auditors' involvement in National Fraud Initiative (NFI));
- Preparing and submitting fraud returns, including nil returns, to Audit Scotland;
- Identifying significant matters arising from the audit, alerting Audit Scotland accordingly and supporting Audit Scotland in producing statutory reports as required;
- Undertaking work requested by Audit Scotland or local performance audit work;
- Certifying all grant claims submitted by the body that have been approved for certification by Audit Scotland;
- Discharging the auditor's responsibilities in connection with bodies' publication of SPIs in accordance with the Accounts Commission's annual Direction;
- Providing existing evidence and intelligence for, and participate in, the Shared Risk Assessment (SRA) process leading to the preparation of a 3-year rolling Assurance Improvement Plan (AIP) and national scrutiny plan;
- Reporting on the results of follow-up on Councils progress in implementing existing BV improvement plans; and
- Contributing to BV audits and other scrutiny responses agreed through the SRA process.

In addition to this annual report, we have reported our Planning Report to those charged with governance (the Scrutiny and Audit Committee) of the Council in February 2016.

The Council is responsible for preparing annual accounts that show a true and fair view and for implementing appropriate internal control systems. The weaknesses or risks identified are only those that have come to our attention during our normal audit work, and may not be all that exist. Communication in this report of matters arising from the audit of the annual accounts or risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Significant risks

Valuation of property assets

Risk Identified

The Council is required to hold property assets within Property, Plant and Equipment at a modern equivalent use valuation. The valuations are by nature significant estimates which are based on specialist and management assumptions and which can be subject to material changes in value.

Net Book Value of Property, plant & equipment at 31 March 2016:
£2,104 million (31 March 2015: £2,101 million)

Revaluation decrease to Revaluation Reserve
£10 million

Revaluation decrease to CIES
£29 million

Impairment loss
£14 million

The revaluation decrease to the Revaluation Reserve offsets gains on specific assets which have been recognised in previous years. The decrease to the CIES represents a reduction in value to less than the assets historical cost. Impairment losses represent permanent reduction in value of assets.

The decreases in valuation are primarily as a result of two new school buildings being completed in the year (Ellon and Alford Academy) and the old school buildings being revalued downwards and re-classified to surplus.

Approximately half of the impairment charge during the year is 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. The other half of the impairment charge is made up of non-value adding additions (c.£5 million) and specific impairments identified throughout the year (c. £2m). Non-value adding additions represent assets identified by the valuer as adding no value during the revaluation exercise and specific impairments are those which have been identified throughout the year (for example, assets damaged during the winter floods).

Key judgements

IFRS requires management's 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.

Aberdeenshire Council perform a 5 year rolling programme of revaluations with approximately 20% of the portfolio being revalued each year.

In addition to the rolling programme the valuer also carried out additional "enhancement and impairment" valuations to cover the following factors:

- New assets or assets which have been subject to a physical change since 1 April 2015; and
- A revaluation of assets where it has been identified that the changing economic conditions in Aberdeenshire (oil price related) has had an impact on the values of the assets.

Valuation of property assets

Deloitte response

We have performed the following:

- reviewed the revaluations performed in the year, ensuring they have been performed in a reasonable manner, on a timely basis and by suitably qualified individuals;
- confirmed evidence of internal management review and challenge has been performed on the revaluations;
- tested a sample of revalued assets and re-perform the calculation ensuring the movement has been recorded through the correct line of the accounts;
- considered managements' assessment of material changes of assets not subject to full revaluation during the year;
- considered assets classified as surplus or held for sale to assess whether these have been valued and disclosed in line with IFRS; and
- involved the use of our internal property specialists to review and challenge the assumptions and methodology adopted by the Valuer.

Deloitte view

We are satisfied that the correct guidance has been followed and the correct valuation bases are being adopted. 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 net book value is not materially misstated. We have, however, made some observations in relation to the methodology adopted by the Valuer. Specific points raised from our sample review have been discussed directly with the Valuer, with a more general observation noted below for action.

Valuation of property assets (continued)

Observation 1 – Training and review

Following our initial review of the Valuers report and the sampling exercise, we identified a number of issues with the valuers cost base valuations applicable to the specialised operational assets, including:

- The valuer did not include the cost of any external works (i.e. surfacing, car parks etc) in the cost based valuations;
- The valuer's prescriptive use of set age/ functional obsolescence percentages allowances leads to anomalies and ultimately the percentages applied should relate to the age and functional issues particular to the specific asset being valued. In particular we noted the valuer's adoption of a minimum allowance of 10% for obsolescence, even for new assets; and
- The valuer has demonstrated a continued lack of understanding with regards to valuing the specialised operational assets on a MEA basis and in particular, this year, the treatment of site sizes which differ from an assessed MEA site area.

While these have been addressed prior to the financial statements being drafted and therefore does not have a material impact on the accounts, this does bring into question the need for further training and senior management input into the valuation process. The above issues resulted in a £30 million change in asset value from the original draft prepared by the valuer to the final valuation.

We therefore recommend the following:

- Additional training should be provide to all staff responsible for the valuation process to ensure that they fully understand what is required when undertaking valuations for financial reporting purposes and this should specifically focus on IFRS valuation methodology taking into account CIPFA valuation guidance;
- There needs to be significantly more input from senior (estates) management in the valuation process, including detailed and critical reviews of draft outputs, valuation methodology and reviewing and approving the valuation of each asset; and
- The scope of the District Valuers input needs to be examined and possibly extended to include the review of the actual valuations.

Appendix – Action Plan.

Observation 2 - Complex 'schemes of valuation'

In our 2014/15 report we noted that the Valuer had developed complex 'schemes of valuation' to value certain categories of assets (schools, community centres, retail units and offices). This year the Valuer has continued to formulate complex schemes which are excessively detailed. Whilst the schemes can be followed, the development of such schemes is unnecessary and can often result in inconsistencies in the valuation/componentisation of specific assets as the asset will be valued in accordance with the overarching scheme as opposed to the Valuer reflecting the specific characteristics of the asset when applying, for example obsolescence allowances.

We concluded that this issue did not have a material impact on the current year valuation. However, we continue to recommend that the Valuer seeks further input from senior management (Estates) and their external consultants (District Valuer) prior to devising such schemes and that these are critically reviewed prior to adoption. Our overall recommendation on these schemes is to simplify the approach in each case and for the Valuer to ensure that they are valuing individual assets rather than developing a scheme which may not be suitable for all the relevant assets.

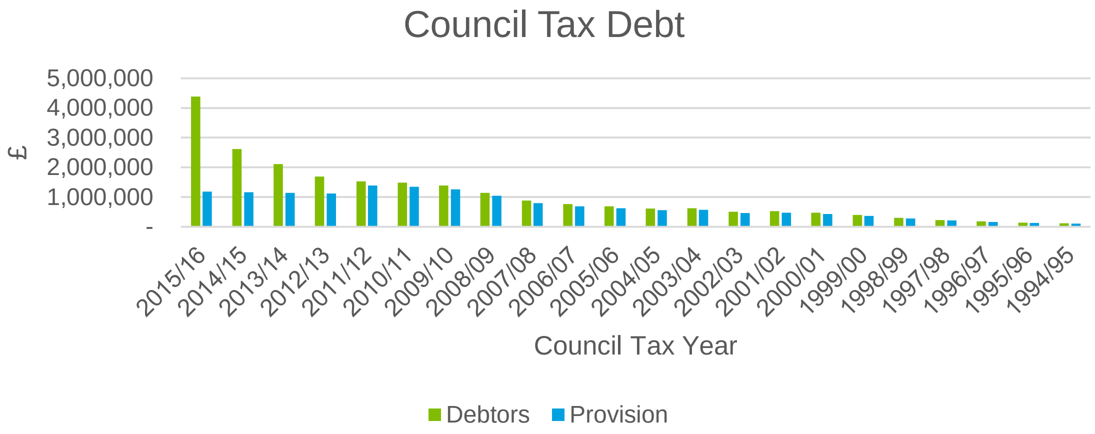
Appendix – Action Plan.

Bad Debt Provision: Council Tax

Nature of the risk

There is significant judgement and complexity around debtor provision calculations. There is a risk that the valuation of provisions is not appropriate and assumptions underpinning calculations are not accurate. The risk has been pinpointed to the Council Tax provision given its level of materiality. Particularly given the changes being implemented from welfare reform, assumptions on recoverability of amounts may not be reasonable. The recent flooding across Aberdeenshire may also impact on residents' ability to pay Council Tax bills.

Key judgements



The key judgements surrounding bad debt provision calculation are:

- ensuring the methodology used to calculate the provision is appropriate and in line with The Code of Practice on Local Authority Accounting in the United Kingdom; and
- ensuring the methodology is adhered to when performing the calculation and that all assumptions are reasonable.

Deloitte response

We have performed the following:

- verified the gross debtor on which the provision is based to the Council Tax 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;
- compared the provisions made with historical data on cash collection; and
- reviewed the final accounts process and confirm that the calculations and assumptions have been reviewed.

Deloitte view

This is the second year to which the Council has applied the new policy of providing 91% against council tax debtors over four years old. In 2015/16 £487k of old debt (>4 years) has been received. We have reviewed and challenged the methodology and found it to be reasonable. From our audit procedures, we are satisfied that the provision is not materially misstated.

Revenue Recognition: Completeness and accuracy of income

Risk Identified

ISA 240 states that when identifying and assessing the risks of material misstatement due to fraud, the auditor shall, based on a presumption that there are risks of fraud in revenue recognition, evaluate which types of revenue, revenue transactions or assertions give rise to such risks.

The main components of income for the Council are non-ring fenced government grants and business rates which are directed by the Scottish Government and not considered a significant risk as the process for receipt of this income is not complex and can be verified 100%. The significant risk is pinpointed to other income, being completeness and accuracy of council tax and housing rent income and accuracy of other government grants received at a service level where restrictions or conditions may apply.

Income	2015/16 (£'000)	2014/15 (£'000)	Movement (£'000)	Movement (%)
Council Tax	117,755	119,270	-1,515	-1.3%
Housing Rent	44,150	42,218	1,932	4.5%
Grant income credited to services	65,283	59,711	5,572	9.3%

Key judgements

The key judgements surrounding grant income is ensuring that revenue is being recognised in line with the Council's revenue recognition policy. With regards to the council tax income the key judgement is ensuring the correct tax bands have been applied and any discounts or exemptions are appropriate.

Deloitte response

We have performed the following:

- tested a sample of charges from the council tax and housing rents system to ensure that the correct council tax and rent levels have been input and billed in accordance with that agreed as part of budget process and that any discounts or reductions have been appropriately applied;
- tested a sample of the council tax and housing rents reconciliations performed by the Council at 31 March 2016 to confirm all income is correctly recorded in the ledger;
- compared income recorded with expectations, based on Council Tax and rent levels agreed as part of budget process and the number of properties;
- corroborated property numbers to independent record held by the Valuer (Council Houses) and the Assessor (Council Tax properties);
- from our sample testing, we confirmed that the reconciliations performed during 2015/16 have been reviewed on a regular basis;
- assessed management's controls around recognition of grant income; and
- tested a sample of other government grants recognised either within Service Income or Non-Specific Grant Income and confirm these have been recognised in accordance with any conditions.

Deloitte view

No issues noted from our testing of the treatment of income in the year.

Management override of controls

Risk Identified

International Standards on Auditing requires auditors to identify a presumed risk of management override of control. This presumed risk cannot be rebutted by the auditor.

This recognises that management may be able to override controls that are in place to present inaccurate or even fraudulent financial reports.

Key judgements

Our audit work is designed to test for instances of management override of controls. We have summarised above our work on key estimates around revenue recognition, property valuations and provisions.

Deloitte response

We have considered the risk factors over the manipulation of accounting entries made in preparation of the financial statements, and note that:

- Aberdeenshire Council continues to face significant financial challenges. While the overall 2015/16 position as at 31 March 2016 is within budget, this is being achieved through balancing an overspend in Adult Social Work with underspends in Education and Children's Services and in Infrastructure Services.
- The Council is also faced with significant financial challenges over the next 4 years, with a projected shortfall of £45.5 million still to be fully addressed. Work is ongoing to identify efficiencies, potential income streams and reduction in services to identify options to reduce the 2017/18 projected deficit of £15.9 million.

We have considered these factors and other potential sensitivities in evaluating the judgements made in the preparation of the financial statements.

Journals

We have understood the key business cycles and performed tests of design and implementation of key controls. Additionally, we have made inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments.

We have used Spotlight data analytics tools to test a sample of journals, based upon identification of items of potential audit interest. No issues in the preparation of the financial statements.

Accounting Estimates

In addition to our work on key accounting estimates discussed above, our retrospective review of management's judgements and assumptions relating to significant estimates reflected in last year's financial statements completed with no issues noted.

Significant transactions

We did not identify any significant transactions outside the normal course of business or transactions where the business rationale was not clear.

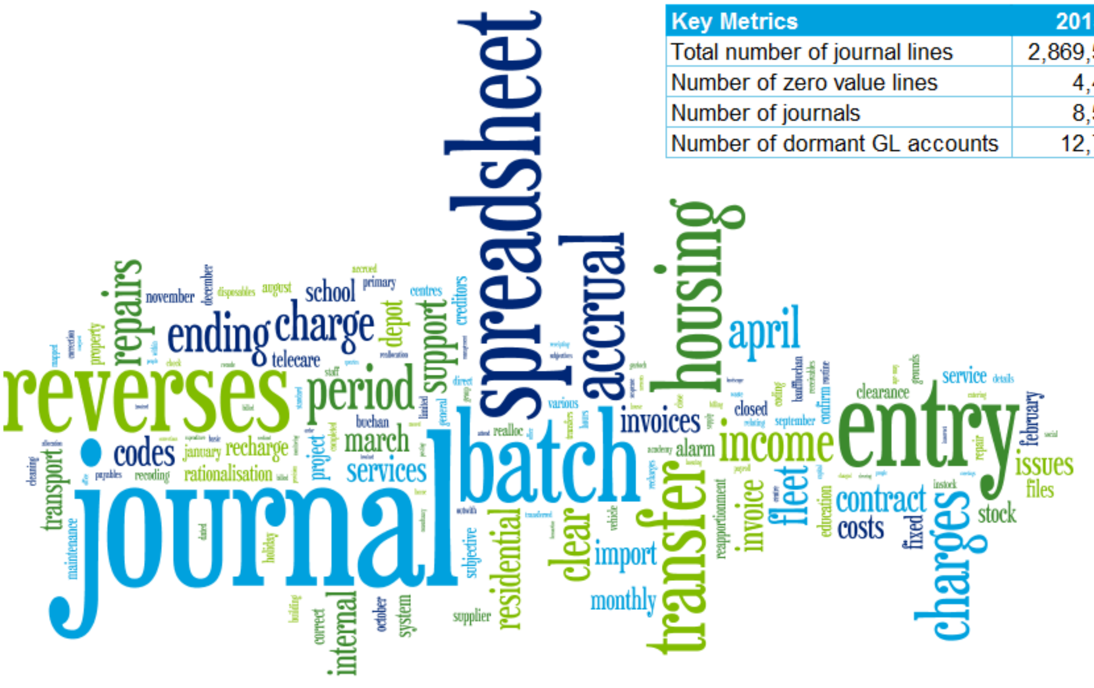
Deloitte view

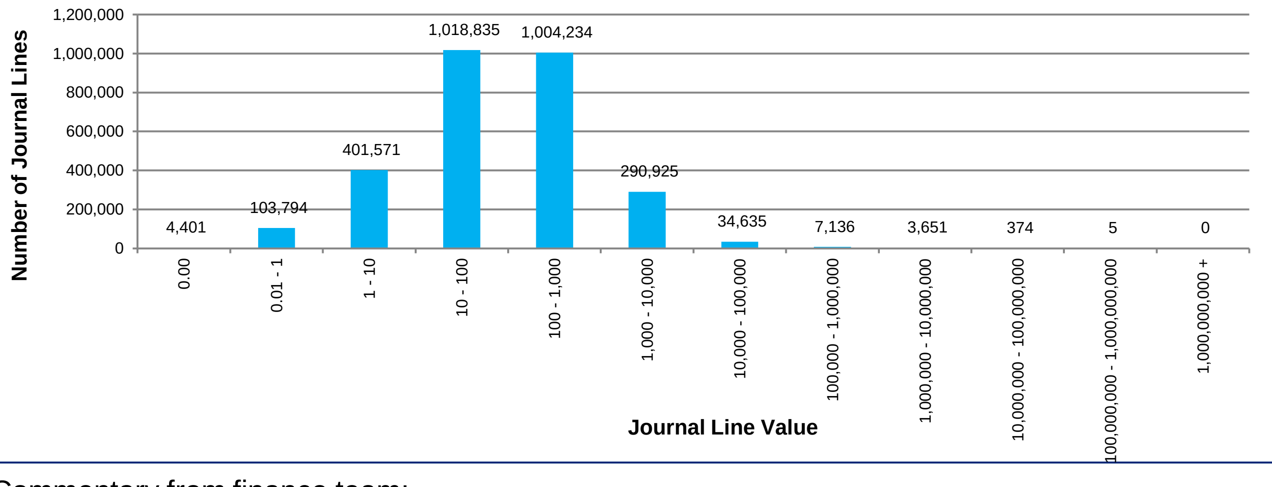
We have not identified any instances of management override of controls.

Insights from Journal entry testing

We have utilised **Spotlight** to perform analytics on all of the journal entries processed during the year. The data was extracted from the Council's general ledger and represents all transactions processed in the year. We have highlighted some key themes arising from this work for your consideration.

Key Metrics	2015/16	2014/15
Total number of journal lines	2,869,561	2,628,002
Number of zero value lines	4,401	7,702
Number of journals	8,507	10,075
Number of dormant GL accounts	12,768	25,369





Commentary from finance team:

- **Number of zero value lines** – excel templates are used in populating common journals, as such, this can result in a template being uploaded with a number of lines with a value of zero, the templates help to save on efficiencies by reducing the need to prepare a journal each time a similar format is required. This has been reduced from prior year.
- **Number of dormant GL accounts** - decreased in comparison with prior year. This indicates a reduction in the accounts which have not been posted to in the current year but were used in the prior year. No specific reason has been identified which has resulted in a decrease in number of dormant accounts.
- **Total number of journal lines** – 71% of all journal lines posted are between £10 and £1000, this is in-line with expectation.
- **Key words of interest** - No unusual/ unexpected words included in journal entries.

Other matters

Defined benefits pension scheme

Background

The Council participates in two defined benefits schemes:

- Scottish Teachers' Pension Scheme, administered by the Scottish Government; and
- The Local Government Pension Scheme.

Audit work performed

We have:

- obtained a copy of the actuarial report produced by Mercer, the scheme actuary, and agreed in the disclosures to notes in the accounts;
- reviewed and challenged the assumptions made by Mercer;
- assessed the reasonableness of the Council's share of the total assets of the scheme with the Draft Pension Fund financial statements;
- reviewed the disclosures within the accounts against the Code;
- assessed the independence and expertise of the actuary supporting the basis of reliance upon their work; and
- liaised with our in-house actuary regarding their assessment of the key assumptions.

No issues noted.

Deloitte response

The net pension liability has reduced from **£286.123 million** in 2014/15 to **£253.899 million** in 2015/16 as a result of an increase in the discount rates applied, offset to some extent by a slight increase in some inflation adjustments.

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. The assumptions have been set in accordance with generally accepted actuarial principles and are compliant with the accounting standard requirements of IAS19.

	Council	Benchmark	Comments
Discount rate - LGPS	3.50%	3.4%	Reasonable albeit slightly optimistic
Discount rate – Teachers	3.40%	3.15%	Reasonable albeit slightly optimistic
Consumer Price Index (CPI) Inflation rate – LGPS	2.0%	1.9%	Reasonable, slightly prudent
CPI Inflation rate - Teachers	2.0%	1.75%	Reasonable, slightly prudent
Salary increase (over CPI inflation)	1.50%	Council specific	Consistent with 2014 funding valuation and prior year end
Pension increase – LGPS	2.0%	1.9%	Reasonable, consistent with prior year end
Pension increase - Teachers	2.0%	1.75%	Reasonable, consistent with prior year end
Current mortality	107% (97%) of standard mortality table for males (females)	Council specific	Reasonable
Mortality – future improvements (CMI – Continuous Mortality Investigation)	CMI13 with a 1.5% p.a. long-term rate	CMI14 with a 1.25% p.a. long-term rate	Reasonable, though slightly prudent

Charitable trusts

Risk identified

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.

During 2015/16, Aberdeenshire Council carried out a review of its charities and formally amalgamated a number of small charities and trusts into the newly established Aberdeenshire Charitable Trust (ACT2). This has significantly reduced the number of charity accounts to be audited to five, being:

- ACT2
- Aberdeenshire Educational Trust
- Anderson and Woodman Library Trust
- Andrew Cooper History Prize Fund
- McDonald Public Park Endowment

2015/16 was also the first year that the new Charities SORP (FRS102) was applicable, which has resulted in a number of new disclosures to be made to the accounts.

Key judgements

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:

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

Deloitte response

No issues were noted from our testing of the charitable trusts accounts in the year, which were found to be correctly accounted for in accordance with the Charities SORP (FRS102).

We did, however, note a number of disclosure deficiencies which required changes to be made to the initial drafts received for audit. It is important that those responsible for managing the charities and preparing the accounts have appropriate training to ensure that they are fully aware of all the requirements of the SORP. **Appendix – Action Plan**

In addition, the working papers provided to support the draft charity accounts were unclear and difficult to follow. Now that the amalgamation of charities into ACT2 has been completed, we would recommend that the Council revisit its ledger coding structure to try and simplify the level of detail for the charities. At the year-end, a clear audit trail is required from the ledger transactions to the draft financial statements. **Appendix – Action Plan**

Highway Network Assets

Background

The 2016/17 local government accounting Code will adopt the measurement requirements of the Code of practice on transport infrastructure assets (the transport code) for the highways network asset, i.e. measurement on a depreciated replacement cost basis. This will have a significant impact on the value of local authority balance sheets.

Audit work performed

In accordance with Audit Scotland's planning guidance for 2015/16, we have considered the Council's arrangements and state of preparedness, including the completeness of information to prepare an opening balance sheet in its 2016/17 financial statements.

We have also reviewed the draft WGA for 2015/16. While there is no requirement to audit this data in the current year, we note that the Highway Network Assets have been valued at £4 billion, compared with the current financial statements disclosure of historical cost Infrastructure Assets of £230 million.

Deloitte response

From our work performed, we have confirmed the following:

- A detailed project plan has been prepared, based on the suggested project plan from the LAAP Bulletin 100. The project team last met in April 2016 and are confident that they are in a position to calculate the opening balances for the 2016/17 accounts, with some work still to do, particularly around street furniture. It is important that the outstanding work is prioritised over the coming months to ensure that sufficient time is available to address any issues prior to preparing the 2016/17 financial statements.
- The Council is part of the SCOTS Roads Asset Management Framework and attends regular meetings at both a national and regional level and is therefore fully aware of the requirements.
- Aberdeenshire's road length inventory is based on its internal list of road lengths, adjusted for any adopted roads. No detailed measurements have been performed on all roads as data is based on inherited information, therefore there is a risk of potential incompleteness or inaccuracies impacting on the valuation recognised within the financial statements. The Council should consider this as part of consideration of critical accounting judgements in 2016/17.
- Not all of Aberdeenshire is covered by the large scale mapping that is needed to allow measurement to be based on Polygons. We understand that discussions are being held nationally with other Councils and Ordnance Survey to address this, but this is a medium to long term project. There is therefore a risk that Aberdeenshire road lengths are not measured consistently with other Councils who apply Polygons, however, we recognise that this is a national issue.
- Locality indices, used as part of the valuation calculation, are based on historical rates adjusted for inflation and have not been reviewed in detail for a number of year. There is therefore a risk that these indices are based on out of date information which will impact on the valuation recognised within the financial statements.
- The Council has still to agree how the data will be recorded in the Fixed Asset Register. It is important that this is considered at an early stage to ensure that the resulting impact on calculated depreciation and other accounting entries is fully considered.

Deloitte conclusion

It is clear that a work is progressing to prepare for the new 2016/17 requirements. We have, however, identified a number of risk areas and actions required that the Council should consider as part of its planning over the next six months. **Appendix – Action Plan**

Public sector audit dimensions

Financial management

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Revenue expenditure

The final outturn for 2015/16 was an in-year deficit of £4.784 million, resulting in an overall underspend of £7.239 million.

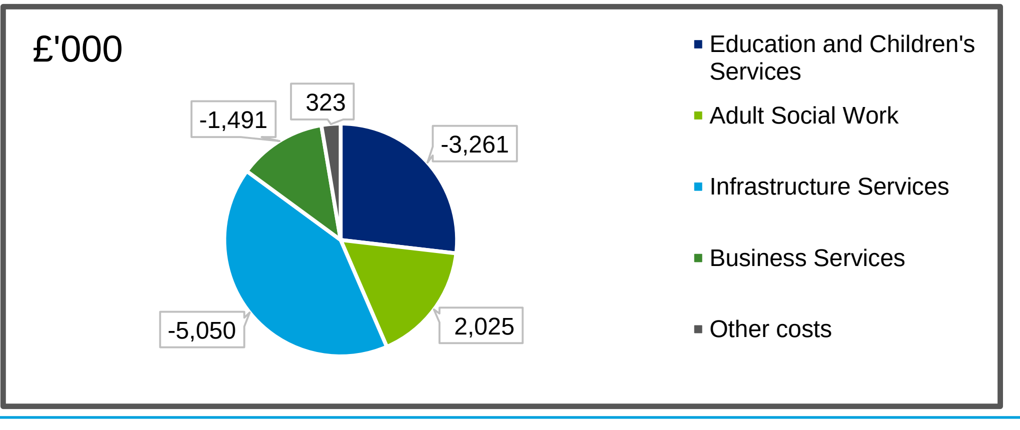
The Comprehensive Income and Expenditure Statement reported a deficit on the provision of services of £69.134 million for the year. After adjusting for the difference between accounting basis and funding basis under regulation and transfers from statutory reserves, the Council reported an decrease in the General Fund balance of £6.665 million.

The table below illustrates how the Council's performance compares to budget:

	2015/16 Budget £'000	2015/16 Actual £'000	**2015/16 Variance £'000**
Gross Expenditure	550,022	542,768	(7,454)
Income	(538,199)	(537,984)	215
Deficit/ (Surplus)	**12,023**	**4,784**	**(7,239)**
Use of Earmarked Reserves	N/A	1,881	N/A
Use of Statutory Reserves	N/A	1,261	N/A
Adjustments between accounting basis and funding basis	N/A	61,208	N/A
Deficit on the Provision of Services	**N/A**	**69,134**	**N/A**

Variances were reported to the Policy and Resources Committee throughout the year, with a final report to the full Council and Scrutiny and Audit Committee meetings in June 2016. The final report was in line with that previously estimated in the January 2016 monitoring report.

The overall variance is a combination of under and overspends on expenditure and to a lesser extent variances on income streams, which are discussed more fully on the following pages. The expenditure variances can be analysed further as follows:



Financial management (continued)

Revenue expenditure(continued)

- **Education and Children's Services** reported an underspend of £3.261 million due to a number of factors, the main being a £2.579 million underspend in Nursery Education (Children and Young People Act) due to a lower number of eligible 2 year olds using the service than originally anticipated, services to 3 and 4 year old pupils are also evolving to meet the needs of parents/ carers. At the same time there have been recruitment difficulties with teachers. Other factors include vacancies in non-teaching staff and restructuring of staff.
- **Adult Social Work** reported an overspend of £2.025 million which is largely attributed to care packages which reported an overspend of £2.7 million. Service managers and their teams continue to review packages with the goal of minimising the pressure on these budgets with every high cost package coming before a review panel.
- **Infrastructure Services** reported an underspend of £5.050 million due to a number of factors, including: £1.047 million underspend in refuse collection and £0.811 million underspend in waste disposal due to a reduction in fuel prices as well as the reduced requirement to hire vehicles and undertake repairs due to the recent purchase of new fleet. Quarries also saw income in excess of budget by £0.826 million due to sales to private parties increasing, partly as a result of the recent flooding events in the area.
- **Business Services** reported an underspend by £1.451 million due to a number of factors, including ICT coming in under budget by £0.327 million due to rebates received on contracts and housing benefit subsidy income being in excess of budgeted by £0.551 million.

A number of the above variances are similar to those reported in previous years, which questions whether the previous year results were fully considered as part of the current year budget setting process. There is scope for the Council to consider whether the budget process and forecasting is adequately taking into account historical trends.

Capital expenditure

In terms of **capital expenditure, a** final outturn of £143.042 million was reported against a budget of £161.564 million. Major capital projects completed during the year included a replacement Ellon Academy, the Alford Community Campus, a replacement Drumoak Primary School and Bennachie View Care Home. Work also continues on the Aberdeen Western Peripheral Route.

The underspend against budget is largely a result of delays in a number of projects including the new primary schools at Markethill and Uryside due to protracted negotiations on land acquisitions.

Conclusion

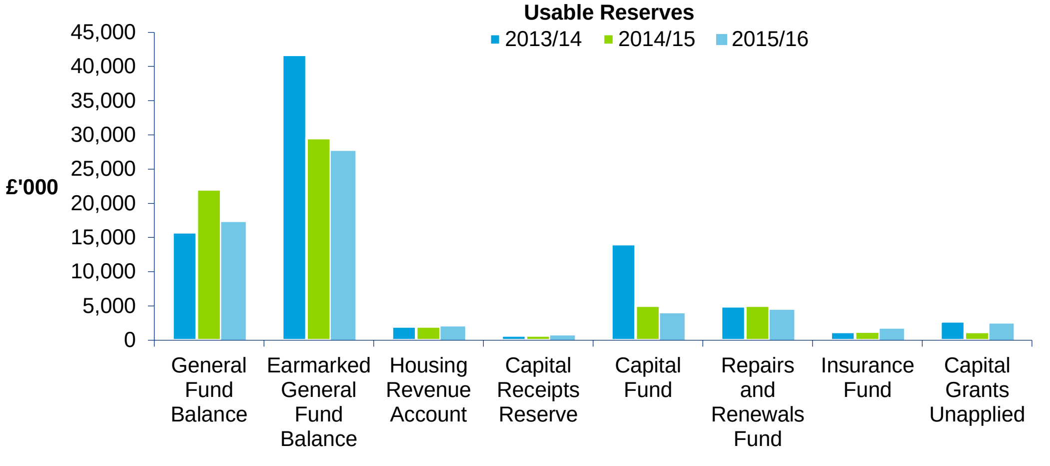
We have noted an improvement in the accuracy of forecasting during the year, with the final result being in line with that previously reported to elected members. However, a number of the variances noted above have arisen as a result of changes which would be unforeseen at the time of setting the budget. There is therefore still scope for the Council to consider whether the budget process and forecasting is sufficiently taking into account historical trends. **Appendix – Action Plan.**

With the move to an integrated health and social care partnership from 1 April 2016, the pressures noted within Adult Social Work will impact on the new partnership going forward. It is important therefore that the Council fully understands the underlying causes of these overspends. With the ever increasing demand on services, the Council and its partner should work to identify how best to target its work on interventions and to deliver better outcomes.

Financial management (continued)

Reserves

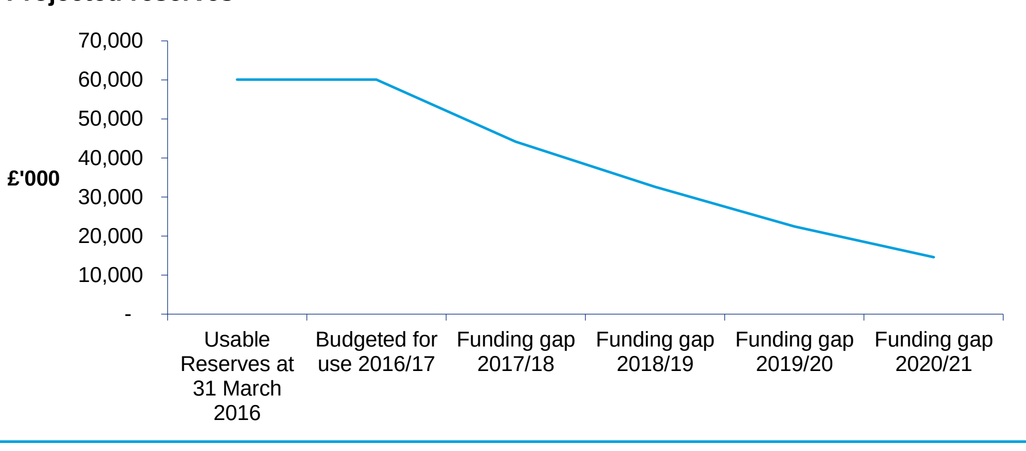
The Council's **Usable Reserves** balance has decreased by £6.703 million in the year to £60.061 million at 31 March 2016. This has been achieved mainly as a result of the use of £4.784 million to balance the budget (as discussed on page 24) as well as expenditure of previous earmarked amounts.



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 2016 is in line within this policy, although significantly above this at £17 million. The Council must ensure that it has an appropriate strategy in place to manage reserves to bring these working balances back in line with the reserves policy, while at the same time demonstrating a clear linkage with the current earmarked balances as set out below.

A total of £27.653 million is being held as "Earmarked General Fund reserves" at 31 March 2016, a reduction of £1.883 million in the year which is largely as a result of £13.617 million expenditure in the year and new transfers in of £11.734 million. These reserves are to provide financing for future expenditure, including: £3.5 million on Business Transformation, £5.158 million to Devolved Education Management, £3.095 million to Innovation and £5.314 million to Regeneration and Priority Town Centre Reserve.

In comparing the usable reserves, incorporating the earmarked reserves noted above, with forecast future funding gaps which are discussed further on page 29, the Council's reserves would diminish to £14.5 million by 2020/21 if savings are not identified for future years as illustrated below. It is therefore critical that savings plans are agreed and implemented.



Financial management (continued)

Whole of Government Accounts

Background

Whole of government accounts (WGA) are the consolidated financial statements for all components of government in the UK. Most public bodies are required to provide information for the preparation of the WGA. External auditors are required to review and provide assurance on WGA returns over a prescribed threshold.

Purpose

The WGA provides the most complete picture available of government finances and is a set of accounts for the whole UK public sector (over 6,000 bodies in 2015/16). The WGA is being used in a number of ways:

- Treasury are using it as part of their spending team's work;
- Treasury are using it to assess the impact of policy changes on long term financial position;
- Ministry of Justice and Department of Health working together to examine reducing the cost of clinical negligence;
- Treasury and Cabinet Office has formed a joint fraud, error and debt task force to tackle the level of losses; and
- Cabinet Office have drawn on WGA in their work on validating the Government estate.

Aberdeenshire perspective

Deadline of 26 August for draft return met

Management review checklist completed and signed by Chief Accountant as evidence of quality review.

Detailed audit work to be carried out w/c 12 September

On schedule to complete audit work by 30 September deadline

Conclusions

Aberdeenshire Council has appropriate arrangements in place for completion of the WGA return. However, the Treasury have committed to faster delivery in future years, which is likely to have a knock-on effect to Council deadlines. We therefore continue to recommend that the Council considers standardising, streamlining and simplifying the close down process, taking into account all the information that is currently produced, including Local Financial Returns (LFRs), Outturn Reports, Financial Statements and the WGA to ensure that they are produced in the most efficient manner.

Financial management (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
Education maintenance allowance	31 July 2016	**Completed**	**None**
Criminal justice social work services grant claim	30 September 2016	**Completed**	**None**
Non-domestic rates income return	9 October 2016	**On Target**	**None to date**
Housing benefit subsidy	30 November 2016	**On Target**	**None to date**
Bellwin Scheme	Within 2 months of claim being submitted	**Not yet started**	**Not yet started**

We are on target to complete all grant claim work in line with Audit Scotland deadlines. We have agreed to audit the Bellwin Scheme grant in early October 2016.

Financial sustainability

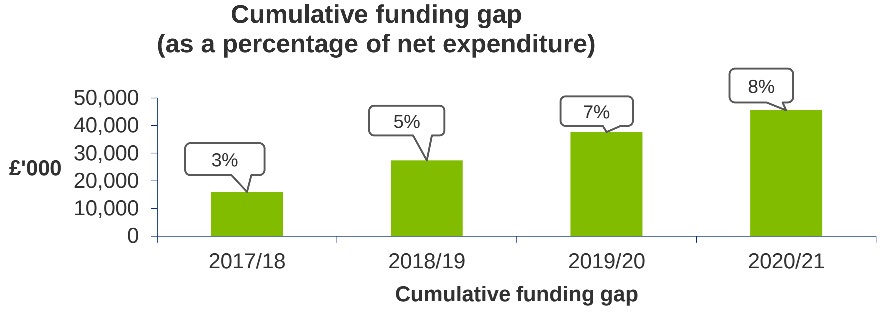
Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.

Financial outlook

The **2016/17 revenue budget** was approved by the Council on 11 February 2016. This budgeted net expenditure of £533.395 million incorporated £28.312 million budget savings to meet the budget gap. A number of risks have been identified by the Council when compiling the budget. Some of these are as a result of policy changes such as Welfare Reform, Integration of Health and Social Care, Self Directed Support and delivering the living wage in care workers, whereas others are local risks specific to Aberdeenshire, including staff recruitment issues, particularly difficulties in recruiting teachers, capacity to deliver savings from 2016/17, demographic changes across Aberdeenshire and severe weather.

As part of developing this budget, the Council has established a Medium Term Financial Strategy (MTFS) prepared by the Strategic Leadership Team reflecting the Council's Strategic Priorities. The MTFS represents a more collaborative approach to financial planning across Services and a more structured view of the revenue budget, Capital Plan and Council reserves allowing the Council to plan the full financial impact of decisions taken now on future years' budgets. Previous "transformation" projects are now considered as part of the MTFS.

Draft budgets have been prepared for 2017 to 2021, however, in the absence of settlement figures for these financial years, the Council has chosen not to apply the savings identified within the MTFS to these years and therefore they remain out of balance. Whilst 2016/17 shows a balanced position, significant shortfalls are projected in future years as noted below, with a cumulative funding gap of £45.5 million up to 2020/121.



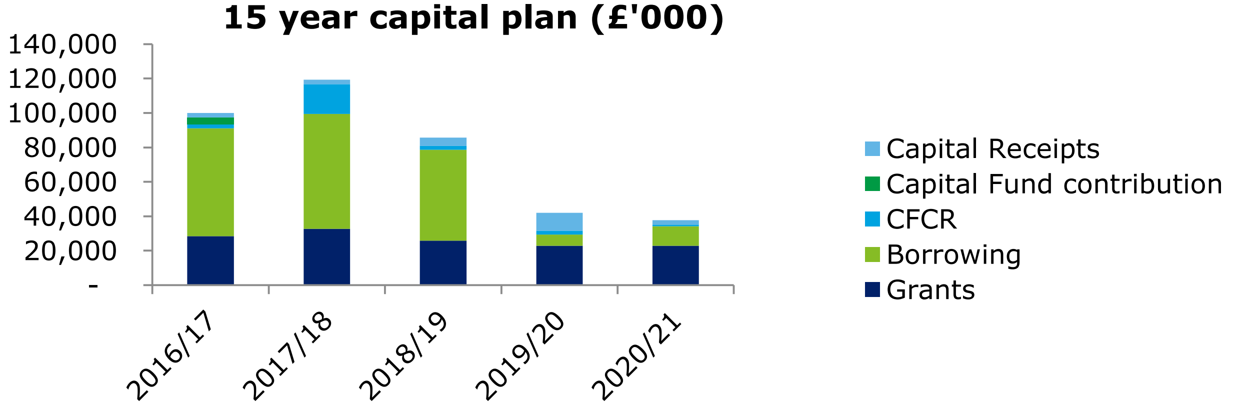
The Council is therefore reporting a balanced budget in the short term, but is taking the opportunity to consider longer term service re-design and improvement through the MTFS. Our review of budget papers presented to elected members has seen some evidence of scenario planning through the consequences and implications section of the MTFS papers, however there is still little detailed analysis of demand, costs or risks.

While some progress is being made in terms of long term financial planning, we continue to have some concerns that the pace and scale of delivery is not yet sufficient to fully meet the Council's objectives and address its longer term financial challenges. In addition, as reported through the Local Scrutiny Plan, it is unclear whether the opportunities afforded by health and social care integration, in terms of new, more efficient and effective ways of service delivery, are in the process of being realised or being progressed as a matter of urgency.

Financial sustainability (continued)

Financial outlook (continued)

The 15 year **capital plan** was also approved by the Council at its meeting on 11 February 2016 and was balanced through increased borrowing. The plan for the next 5 years is shown below As a result, budget pressure have been created on the revenue budget, comprising £13.1 million in relation to borrowing costs and £5.8 million of revenue implications of the projects. To support balancing the 2016/17 revenue budget, projects have been re-profiled from 2016/17 to future years, which is further evidence of the Council taking a short term view.



The Council has an ambitious capital plan in place for the next three years, and while the 15 year plan is balanced, there are significant pressures on the plan for new projects coming forward for inclusion.

The following significant projects are included in the next three years:
- Aberdeen Western Peripheral Route - £49 million
- New Care Home (North) - £8 million
- Markethill Primary School Replacement - £12 million
- Inverurie Academy - £25 million
- Kinellar Primary School - £12 million
- Uryside Primary School - £12 million
- Kintore Primary School - £15 million
- Portlethen/ Hillside Primary School - £12 million
- Banff and Macduff Sporting Facilities - £13 million
- Community Sports Facility, Hill of Banchory - £8 million

In addition, the housing capital programme, totalling £59.870 million for 2016/17 was approved. This includes £16.336 million of expenditure against new builds.

It is important that the Council has robust project management in place to manage this ambitious plan.

Conclusion

While some progress is being made in terms of long term financial planning, we continue to have some concerns that the pace and scale of delivery is not yet sufficient to fully meet the Council's objectives and address its longer term financial challenges.

Financial sustainability (continued)

Workforce Planning

To achieve long term financial sustainability, managing its workforce is key and staff development, training and education is key to creating and maintaining a robust and pro-active workforce and remains a high priority for Aberdeenshire Council.

In accordance with Audit Scotland planning guidance, we have performed targeted follow up work based on the recommendations made in the national performance report on **Scotland's Public Sector Workforce** which was published in November 2013 and submitted a standard questionnaire in accordance with Audit Scotland guidance.

The Council has a clear set of objectives, driven from the Council Plan to Service Planning. Work is currently in progress to determine the consequence of changes to the workforce. We have confirmed that Aberdeenshire Council has a workforce strategy, however, this is currently being refreshed as part of its organisational priorities. The Council does not produce service workforce plans, and instead applies a focused process for specific areas of the Council, apply the standard six step model which is widely used. We noted, however, that these are generally not considered by elected members. As part of Service planning, there is scope to improve the clarity of how workforce planning is integrated into the whole process as there is a risk that the current Service Planning is not fully joined up. An operational model of the future should drive an integrated workforce planning approach.

We noted that while succession planning is being considered in some services, for example the future leaders programme for roads services management, it is not being considered consistently within plans for the medium and longer term. As part of the development of the Medium Term Financial Strategy, the Council is considering forecasted expected number of staff, skill needs and associated costs. The impact of service redesign on the workforce is measured and monitored, however, recent service redesign is still at an early stage therefore evidence of this being performed could not be provided.

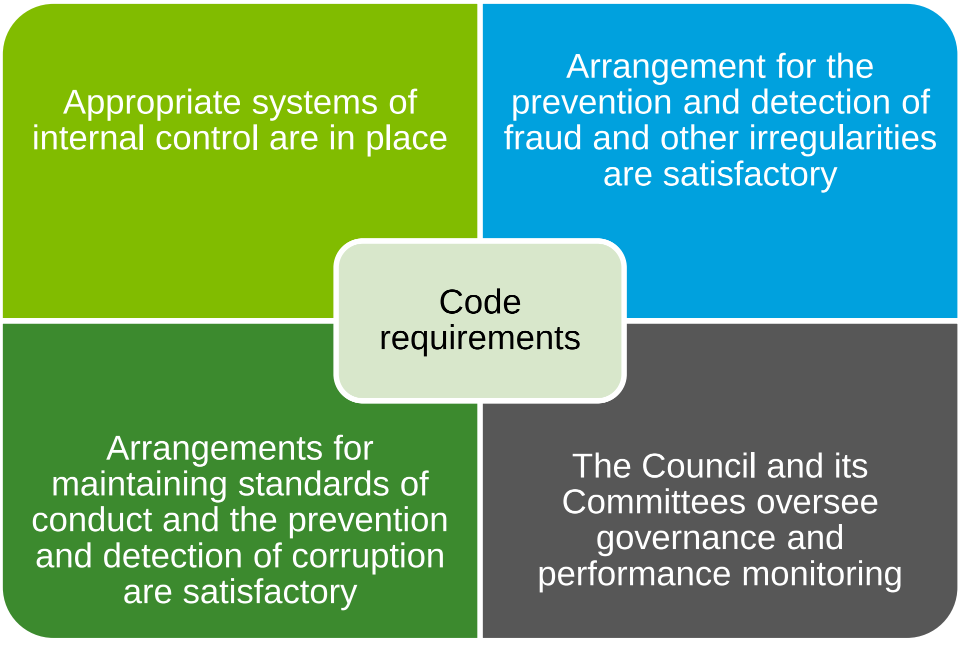
From our review we noted a number of good examples where the Council has identified a shared staff resource with its partners, particularly in the new health and social care partnerships.

The above conclusions have been reported to Audit Scotland for consideration in any future national performance reviews in this area.

Governance and Transparency

<u>Governance and transparency</u> is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information.

In accordance with the Code of Audit Practice, we are required to consider and formally report in relation to the following key matters:



We confirm that we have reviewed the arrangements in each of the four areas and concluded as noted above, highlighting the following:

- From our review of the internal audit plan for 2015/16 and audit reports, we are satisfied that there are appropriate systems of internal control in place and no significant weaknesses have been identified. Appropriate disclosure has been made in the annual governance statement of issues identified from the work of internal audit and action being taken.

- We are comfortable with the fraud arrangements in place and confirm we have not been made aware of any financially significant frauds in the year.

- We have identified no issues with regard to the arrangements for maintaining standards of conduct and the prevention and detection of corruption.

- The Council and its Committees met regularly throughout the year to oversee governance and performance monitoring. In June 2015, political change resulted in the Council now being led by a new administration, comprising the 28-member SNP group and the 'Progressive Alliance' containing the two Scottish Labour Councillors and the two Progressive Independent Councillors. This resulted in the Council appointed two Co-Leaders. Councillor Martin Kitts-Hayes has since resigned as a Councillor on 31 August 2016 and Councillor Richard Thomson was appointed as Leader of the Council on 1 September 2016. No changes to the Council Plan or priorities have been made as a result of these changes. The Future Governance review, as discussed further on page 33 is now progressing.

Governance and Transparency (continued)

Governance arrangements are operating effectively

Future Governance Review

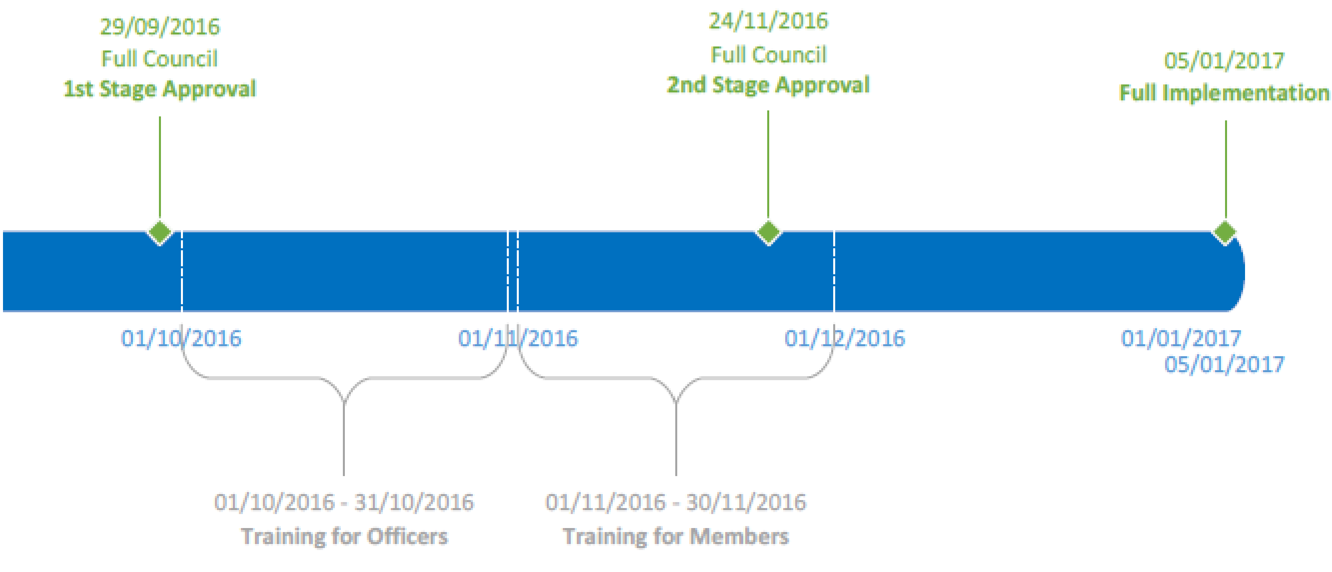
In March 2015, the Council established a Future Governance Working Group with the following remit:

"To investigate, consider and make recommendations to the Full Council on all aspects of the decision-making structure of the Council so as to be responsive to the changes facing local government in the short, medium and longer term"

Since then, the working group has met on nine occasions and has now completed the considerations phase of their work, covering the following areas:

- options for decision making structures including cabinet and committee systems;
- the current roles and responsibilities of Area and Policy Committees and how members saw business being conducted in the future. Vision statements and principles were developed to reflect members' views in this respect;
- changes required as a result of Health and Social Care integration and the delegation of statutory powers in that respect; and
- options for the future management of Audit and Scrutiny functions and the Council's financial affairs.

A report was presented to Full Council in June 2016 where broad general agreement in principle was given to allow officers to progress the detailed technical work necessary to implement the preferred structure. The following timeline and milestones have been agreed for implementation following the high level approval on 30 June 2016:



Governance and Transparency (continued)

Governance arrangements are operating effectively

Internal Audit

During 2015/16, Aberdeenshire Council's Internal Audit team has been providing internal audit services to Aberdeen City Council through a shared service agreement. In addition to this, the team has also been appointed to provide internal audit services to the newly established IJB. Some additional resources have been provided to build capacity within the team and there have been no issues with regards to delivery of the agreed plan for Aberdeenshire Council.

From our review of the internal audit reports issued during 2015/16, we have continued to note a number of "major" graded recommendations, in particular issues identified from internal audit around lack of compliance with financial regulations. This has been a recurring theme and highlighted by the Scrutiny and Audit Committee and a special meeting of the Committee was held on 24 March 2016 to discuss this topic in detail. This included a detailed analysis of the common compliance breaches which we understand are being considered as part of the financial regulations update. The planned review and update of the Financial Regulations is in progress in conjunction with the wider Future Governance review discussed further on page 33.

We note that no frauds have been identified as a result of these issues.

Following the Public Pound

The statutory requirements to comply with the Following the Public Pound Code, in conjunction with the wider statutory duty to ensure Best Value, means that Councils should have appropriate arrangements to approve, monitor and hold third parties accountable for public funding provided to them.

We have considered the appropriateness of the Council's arrangements to meet their obligations to comply with the Code and note the following:

- Consideration of the arrangements in included within the Internal Audit plan. This was last reviewed in 2015/16 where internal audit reviewed the arrangements specific to Social Work services. Whilst in general, internal audit concluded that the Council's procedures were being applied correctly, a number of recommendations have been made and actions agreed.

- In response to the new procurement legislation and accompanying Regulations, the Council has published its Contracts Register, representing a statement of current and future opportunities.

Governance and transparency (continued)
National Fraud Initiative

In accordance with Audit Scotland planning guidance, we are required to monitor the Council's participation in the National Fraud Initiative (NFI) and progress during 2015/16 and complete an NFI audit questionnaire by 29 February 2016.

A summary of the matches reported in the NFI system is provided below:

	Total
Total matches flagged	**11,763**
Total recommended matches to be investigated	**2,310**
Total processed	**1,682**
Frauds	**0**
Errors	**0**
Outcome	**£Nil**

While the results of the investigations carried out have been recorded within the NFI system, none have been closed off due the following:

- The housing benefit matches, which make up the majority of those processed (1,047) as these now sit with the Single Fraud Investigation Service (SFIS) rather than the Council.
- None of the payroll matches have been investigated (378 recommended) as resourcing within this team has been focused on implementation of the new payroll system. The Council has taken the decision, based on the low risk of fraud or errors from previous NFI exercises, to wait until the new system is live so that it has better data to follow these up.
- Only 54 of the 1,187 recommended matches in relation to blue badges have been processed as the Council has been able to conclude from those reviewed to date that these matches have arisen as a result of timing differences. The Council has restricted its team so that blue badges are now managed by the team administering benefits so the Council expects this to improve during the next NFI round.

Deloitte Conclusion

We reported in our 2014/15 annual report, that due to resourcing issues, the Council had only recently started following up on the recommended matches, with the Payroll matches still to be started. We therefore recommended that the Council review its arrangements and also utilises the self-appraisal checklist to assist with planning and monitoring progress in the future. This has still to be implemented. **Appendix – Action Plan.**

Since then, some progress has been made, however there are still actions to be taken and matches to be followed up as noted above. Part of this is outside the Council's control due to the transfer of staff to SFIS during the year. The Council recognises that this has been a learning curve and is looking to review its arrangements going forward. An action plan has been agreed, which includes training to be delivered to all staff by the end of January 2017.

Governance and transparency (continued)

Integration of adult health and social care

Governance arrangements

The Health and Social Care Partnership (HSCP) for Aberdeenshire was established on 6 February 2016 following the approval of the Integration Scheme by the Scottish Government and services have been delegated from 1 April 2016. The following key actions have taken place in advance of "go live" date:

- After wide engagement and consultation, the **strategic plan** for the HSCP has been formally approved by the IJB. This plan will provide the high level guidance for the preparation of more detailed commissioning plans during 2016.
- Work has been done to develop proposals for the **hosting of delegated services** which are currently provided on a Grampian wide basis. These are mainly based on the previous Community Health Partnership hosting arrangements.
- Following the delegation of budgets to the HSCPs including elements of the acute sector budget, the **Acute Sector** management team is engaged with the Chief Officers in terms of the future planning of services. The development of the winter plan for 2015/16 involved close collaboration with the IJB and it is anticipated that the working relationships will be further strengthened as the IJB move forward.

Workforce planning and organisational development

- Work to establish the future staffing arrangements within the Partnership and between the Partnerships and the host employer are progressing. Arrangements to define the future employee relations model within the Partnership are broadly agreed.
- Discussions on the process of organisational change and the implications of this are ongoing, as are the development of future workforce plans.
- The IJB Chief Officer is a full member of the Strategic Leadership Team at both NHS Grampian and Aberdeenshire Council which is aimed at supporting and encouraging integration.

Risk management

- A joint risk framework has been agreed between the representatives of Aberdeenshire Council and the IJB which will guide the approach to risk management beyond the formal establishment of the IJB.
- The Risk Management Strategies for the HSCP will be approved by the IJB.

Performance management

- New performance management arrangements have been put in place which includes joint performance management of the Chief Officer and system wide performance management.
- Improved information sharing is of key importance in the delivery of high quality integrated services.
- A cross system steering group for information sharing has been established which will develop a joint vision and organise joint decision making processes to maximise the benefits of information sharing whilst meeting the requirement of legislation.

Governance and transparency (continued)

Integration of adult health and social care (continued)

Delegated budgets

Budgets for those services that are to be delegated according to the legislation were approved by the Council on 12 February 2016. The assumptions underlying the budgets have been discussed and agreed with the Chief Officer, the s95 officer and the partner bodies.

The total contribution from Aberdeenshire Council of £101m as detailed in the table.

Work is being progressed to develop future year budgets in consultation with partner bodies.

A due diligence exercise will be carried out at the end of the 2016/17 financial year to assess the adequacy of the payment made in the first year for delegated functions and to inform the budget for future years. The use of analytics to better align the respective budgets of the local government and health partners to targeted outcomes is an area that has potential scope for further work as the partnerships develop.

2016/17 Approved Budget	£m
Core Services	58.501
Hosted Services	7.129
Primary Care	33.702
Prescribing	41.881
Community Mental Health	6.547
Social Care Funding	9.500
Funds	4.914
Criminal Justice	0.033
Learning Disabilities	30.865
Mental Health	4.088
Substance Misuse	1.581
Care Management	34.001
Other Older People Services	30.492
Total Directly Controlled Budget	**263.234**
Contribution from Aberdeenshire Council	101.060
Contribution from NHS Grampian	162.174
“Set Aside” budget for Hospital Services	**26.665**

Internal audit arrangements

Following agreement by the NHS Grampian Audit Committee and Aberdeenshire Council Scrutiny and Audit Committee, a joint scope for an internal audit review of the governance, financial and monitoring arrangements for the establishment of the IJBs was agreed with all local authority partners. Each of the individual reports were considered first by each organisation’s Audit Committee and then shared with the shadow IJB prior to March 2016.

Audit and Assurance Network

A Grampian Health and Social Care Integration Audit and Assurance network has been set up. The purpose of this network is to become the local forum to support the development and ongoing co-ordination of audit and assurance arrangements across the three IJBs and the partner bodies within Grampian. A progress report following each meeting will be available to the Audit Committee. The first meeting was held in December 2015.

Deloitte conclusion

Overall, we have concluded that work is progressing with the IJB now operational from 1 April 2016 and regular reports on progress have been made to the Council.

Governance and transparency (continued)

Integration of adult health and social care (continued)

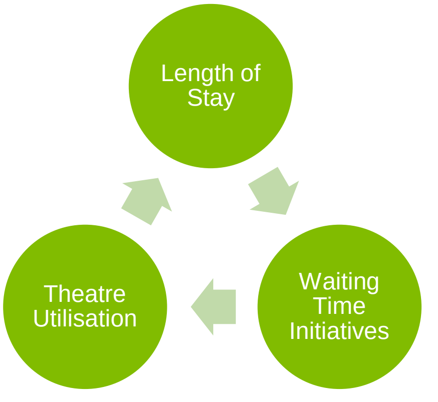
Data Diagnostics

As both the health and local government sectors continue to be under huge financial pressure, it is important that the new IJBs use the integration of adult health and social care to make transformational change. The following case study is an example of work we have seen elsewhere which Aberdeenshire Council and its partners could benefit from in performing a similar review.

Case Study – Data Diagnostics

Deloitte has been involved in work in another NHS Scotland Board where we were commissioned to support the organisation to understand their data and how they can use it, now and in the future, to identify opportunities for improvement and make changes to the services that will support the achievement of the required financial position.

A key challenge was to identify and prioritise areas for further analysis given the wealth of data, systems and information available. Working with the NHS Board, we agreed to focus on analysis of length of stay data and theatre information from the TrakCare and ORSOS systems respectively.



From this work a number of key opportunities were identified:

- **Reducing Length of Stay Variances – opportunity value £5m - £ 7.5m per year**
  - Designing a consolidated improvement programme focused on discharge planning across the health and social care economy should address issues including multiple entry routes and improvements in hospital processes, for example moving discharge decisions earlier in the day.
  - Implement a number of speciality level improvement including engaging directly with the clinical community using the data visualisation tools developed to help drive clinical and operational change.
- **Maximise Core Time Theatre Capacity – opportunity value £1.5m - £4.0m per year**
  - Implement a programme aimed at maximising day case rates with the presumption that agreed surgical procedures are listed as a day case as standard.
  - High cancelation rates should be addressed through improvements in pre assessment and scheduling. We estimated that this would increase throughput by 2-3% (c£1m-£2m).
  - Look to maximise core hour theatre capacity to reduce reliance on weekend Waiting List Initiatives (WLI) by moving WLIs into workday gaps in the schedule which we estimated would further reduce costs (c£0.5m-£1m).
  - Working practice modernisation such as reviewing the theatres working day and job plans would provide further productivity opportunities.
  - Review private sector tariffs. We estimated that the unit costs are 47% higher than English tariff which sets the benchmark for private providers in England (c£0.5m-£1m).
  - Embed a robust approach to demand and capacity modelling at speciality level and articulate a clear plan to move to a sustainable position.

Governance and transparency (continued)

Local Area Network

We continue to actively participate in the Local Area Network (LAN) and make positive contributions to the Local Scrutiny Plan. The LAN met in December 2015 to update the shared risk assessment, and met with the Chief Executive and the Council's Management Team in February 2016. The Local Scrutiny Plan 2016/17 was published by Audit Scotland in March 2016 and was presented to the Full Council meeting on 28 June 2016.

Conclusions

No specific risks were identified in the shared risk assessment this year. However, the LAN identified a number of areas which form part of the on-going oversight and monitoring work carried out by scrutiny partners. This work includes the following issues:

- **Leadership and governance –** We have provided commentary on the MTFS on page 29 of this report.
- **Future year funding gap –** We have provided commentary on this risk on page 29 of this report.
- **Housing and homelessness –** The Scottish Housing Regulator (SHR) reviewed and compared the performance of all Scottish social landlords to identify the weakest performing landlords. The SHR has assessed the performance of Aberdeenshire and concluded that no additional scrutiny is required beyond statutory work.
- **Education Scotland –** Recruitment of teaching staff continue to be a challenge and there is scope to further improve inspection outcomes. The Area Lead Officer from Education Scotland will continue to monitor the impact of steps taken by the Council to address both of these areas.

Value for money

Value for money is concerned with using resources effectively and continually improving services.

Statutory performance indicators

Statutory duties and responsibilities

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.

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".*

The 2012 Accounts Commission Direction and guidance on auditing SPIs was issued in March 2013 and sets out the following approach:

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).

At its meeting in June 2015 the Commission agreed that its 2015 SPI direction needed to reflect the Commission's on-going commitment to sector-led benchmarking and improvement and its approach to the next iteration of the local government Best Value audit approach, in particular the tone of continuous improvement and outcomes.

On that basis, the Commission agreed to endorse a strategy incorporating the following principles:
- a longer-term Statutory Performance Indicator Direction;
- a recognition of the increasing maturity of, and the Commission's support for the further development of the Local Government Benchmarking Framework; and
- incorporating the assessment of council's approaches to public performance (PPR) as an integral element of the new approach to auditing Best Value, rather than undertaking separate annual assessments of this aspect of Council's performance.

The 2015 Direction was approved in December 2015 covering the financial years ending 31 March 2017-2019.

As a result of the above decision, we are not required to report on the adequacy of the Council's overall approaches to PPR as part of the 2015/16 audit process.

Deloitte response

We have considered the adequacy of the Council's arrangement for collecting, recording and publishing accurate and complete information and noted no issues.

Value for money (continued)

Community Empowerment Act

Background

The Community Empowerment Act will help to empower community bodies through the ownership of land and buildings, and by strengthening their voices in the decisions that matter to them. It will also improve outcomes for communities by improving the process of community planning, ensuring that local service providers work together even more closely with communities to meet the needs of the people who use them.

The Bill was passed by the Scottish Parliament on 17 June 2015 and received Royal Assent, becoming an Act, on 24 July 2015.

The Act does a number of things including: extending the community right to buy, making it simpler for communities to take over public sector land and buildings, and strengthening the statutory base for community planning. Crucially it can help empower community bodies through the ownership of land and buildings and strengthening their voices in the decision and services that matter to them.

Aberdeenshire Council position

A Community Empowerment Act Steering Group has been set up to consider the implications of the Act, to develop and monitor short and medium term actions which are required in order to ensure that the Council is well placed, not only to embrace the short term principles set out in the Act, but in the long term to be compliant with any guidance and regulations which are published in support of the Act. The group is chaired by the Head of Customer Communication and Improvement and meets on a monthly basis.

A session was held with the Corporate Leadership Group (CLG) on the 11 November 2015 to get a collective awareness and approach to the Community Empowerment Act amongst all members of CLG, to get an appreciation of competing demands and priorities facing them and challenge services to consider the best use of all council assets and build thinking into their business planning process.

A draft revised Community Asset Transfer Policy was presented to the Strategic Leadership Team on 9 December 2015 for comment. Part of the consideration was to look at the governance implications of the appeals process and the proposal to establish a subcommittee of Full Council to consider all appeals related to the Act. A revised Community Asset Transfer policy and revised Surplus Property policy was approved by the Policy and Resources Committee on 9 June 2016 and a report is expected to go to Full Council in due course seeking the establishment of a Community Empowerment Appeals Committee. We are not aware of any service delivery being transferred to the Community.

While still at early stages, it is clear that the Council is aware of the requirements and making plans to develop policies and strategies.

Value for money (continued)

Audit Scotland national reports

The following reports have been issued by Audit Scotland over the past year which may be of interest to Council members:

Title	Headline messages	Impact on Aberdeenshire Council
Health and Social Care Integration *Published December 2015*	Significant risks must be addressed if a major reform of health and social care is to fundamentally change how services are delivered, and improve outcomes for the people who use them.	The newly established IJB must now take the lead and begin strategically shifting resources towards a different, more community-based approach to healthcare. To achieve the scale and pace of change that is needed, there should be a clear understanding of who is accountable for delivering integrated services, and strategic plans that show how the IJB will use resources to transform delivery of health and social care.
Major capital investment in councils – follow-up *Published January 2016*	Councils have made some progress since the 2013 report but they need to do further work to fully comply with good practice. In particular, they should provide councillors with better information through clear, good quality reports to enable them to effectively challenge and scrutinise capital investment decisions, plans and progress.	Aberdeenshire Council should consider the findings of this report in conjunction with the work it is doing on future budget strategies to ensure that it incorporates the good practice highlighted from this review.
Community planning – an update *Published March 2016*	Community planning continues to be given a pivotal role in transforming public services in Scotland. The progress seen from individual CPPs shows there is enthusiasm for pushing forward with this ambitious reform. However, without a stronger focus on prevention, long-term outcomes, and how partnerships perform, it is difficult to see how community planning can make the impact that's needed. If community planning is to thrive, the views and experiences of local people must be at the heart of measuring delivery of public services.	Aberdeenshire Council, working closely with its partners, should consider the findings of this report. As part of the budget review we have noted that the Council has sought to build on previous engagement with communities and the IJBs is an ideal opportunity for the Council and partners to share and deliver resources towards joint priorities.

Value for money (continued)

Audit Scotland national reports (continued)

Title	Headline messages	Impact on Aberdeenshire Council
An overview of local government in Scotland 2016 *Published March 2016*	Councils have coped well so far but the scale of the future challenge requires longer-term planning and a greater openness to consider alternative forms of service delivery What is important for the public is that whatever choice a council makes about how to provide a service, it can demonstrate that the choice represents best value both in terms of cost and quality.	Aberdeenshire Council should consider the recommendations in this report as it develops its future years budgets. In particular, Councillors should use the questions in the report and the separate self-assessment tool to help them assess the Council's position.
Changing models of health and social care *Published March 2016*	A lack of national leadership and clear planning is preventing the wider change urgently needed if Scotland's health and social care services are to adapt to increasing pressures.	Aberdeenshire Council and its health partners must contribute to spreading their knowledge and good practice by working with IJB to build a clear picture of what the future of health and social care looks like in their local areas, and what resources must be invested to make that a reality.
Reshaping care for older people – impact report *Published March 2016*	This report looks at the impact made by the report *Reshaping care for older people*, which was published in February 2014.	Many of the recommendations made in the report are being taken forward as part of the integration agenda. The impact on Aberdeenshire Council is as noted above.
Maintaining Scotland's roads: a follow-up report *Published August 2016*	Councils face increasing pressures and challenges but progress in developing a shared services approach for roads has been disappointingly slow. They can and should collaborate more to secure better value for money.	Aberdeenshire Council should consider the recommendations of the report, working closely with the Roads Collaboration Programme.

Your Annual Report

Our comments on your annual report

We welcome this opportunity to set out for the Scrutiny and Audit Committee our observations on the annual report. 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:

	Deloitte response
Management Commentary	The 2014 Regulation introduced a requirement for the annual accounts to include a Management Commentary, which aligns the requirements to that of the Government Financial Reporting Manual and the Companies Act. The Management Commentary comments on financial performance, strategy and performance review and targets. Deloitte note that the Management Commentary has been prepared in line with issued guidance. The commentary included both financial and non financial KPIs and made good use of graphs and diagrams. The council also focusses on the strategic planning context. In 2014/15 we recommended that the Council consider the use of diagrams, charts and tables as well as benchmarking to enhance the readers' understanding. We note that improvements have been made in the current financial statements.
Remuneration Report	The remuneration report has been prepared in accordance with the 2014 Regulations, disclosing the remuneration and pension benefits of Senior Councillors and Senior Employees of the Council. We are satisfied that the remuneration report has been prepared in accordance with the regulations and is consistent with the findings of our audit.
Governance Statement	The Governance Statement reports that Aberdeenshire Council governance arrangements provide assurance, are adequate and are operating effectively. We have reviewed the systems in place to ensure that there is sufficient evidence available to the Chief Executive and Co-Leaders to sign the Governance Statement. Currently, assurance is largely taken from the work of Internal Audit. We recommended in the prior year to further enhance these arrangements by incorporating input from all Directors and Senior Councillors to ensure that all potential issues are captured. This was partly addressed as part of the 2015/16 process, however further work is required to ensure input is obtained from all. The statement notes that some significant concerns relating to compliance with policies and procedures has been noted by Internal Audit. However, reasonable assurance can be placed upon the adequacy and effectiveness of the Council's internal control environment. This is consistent with our knowledge based on evidence collected in the course of the audit. We proposed a number of recommended changes to the draft Annual Governance Statement to ensure that it is fully compliant with the best practice, which have been updated in the revised financial statements.

Purpose of our report and responsibility statement

Purpose of our report and 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 Members of the Council discharge their governance duties. It also represents one way in which we fulfil our obligations under ISA 260 (UK and Ireland) 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.
- Other insights we have identified from our audit.

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" previously circulated to you.

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

Deloitte LLP

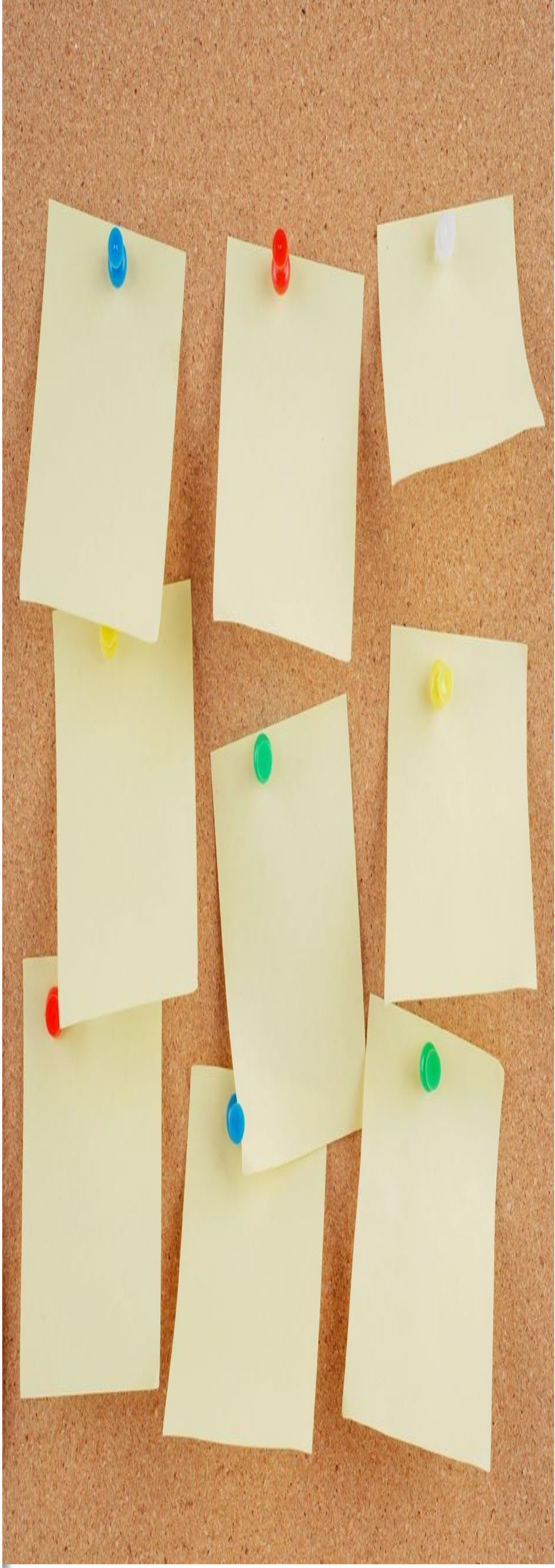
Deloitte LLP

Chartered Accountants

Edinburgh

13 September 2016

Appendices



Audit adjustments

Summary of uncorrected and corrected misstatements

Corrected misstatements

There were no corrected misstatements noted during the process of our audit work to date.

Uncorrected misstatements

There were three uncorrected misstatements noted during the process of our audit work, as summarised below:

Adjustment	(Credit)/ charge to current year CIES/ General Fund £'000	Increase/ (decrease) in net assets £'000	Increase/ (decrease) in reserves £'000
DR CIES CR Creditors *Being post year-end invoices omitted from accruals in error*	266	(266)	
DR Cash CR income *Being income received pre year-end not recognised*	(149)	149	
DR Debtors CR Income *Being Business Rates Incentive Scheme (BRIS) income due for 2015/16 as targets have been met*	(900)	900	
Total	**(783)**	**783**	

Disclosure deficiencies

Auditing standards require us to highlight significant disclosure misstatements to enable audit committees to evaluate the impact of those matters on the financial statements. There were no disclosure misstatements noted in the course of our work to date. Management have corrected a number of immaterial disclosure deficiencies.

Action Plan

Our recommendations for improvement

We present a summary of observations on the Council's internal control and risk management processes:

Area	Observation	Management response	Priority
Property Plant and Equipment	The Valuer should be provided with more training to ensure that he fully understands what is required when undertaking valuations for financial reporting purposes and this should specifically focus on IFRS valuation methodology taking into account CIPFA valuation guidance.	The valuer has had significant training, in particular with regard to IRFS valuation methodology taking into account CIPFA valuation guidance. Such training is usually provided on an annual basis and the valuer attends these courses. It is a fact that such attendance is required to ensure compliance with current guidance. In addition, in order to ensure compliance, the proposed approach to each year's valuation exercise is assessed by the District Valuer who is aware of current guidance and practice. It is accepted that continual retraining is required and this will continue to be implemented. **Responsible Officer:** Estates Manager **Target date:** When training is available	Medium
Property Plant and Equipment	There needs to be significantly more input from senior (estates) management in the valuation process, including detailed and critical reviews of draft outputs, valuation methodology and reviewing and approving the valuation of each asset.	There was significant input from senior (Estates) management to the valuation process and we are not aware of any enquiries having been made to determine this. There many potential approaches to valuation (although the approach adopted should comply with guidance). The approach adopted was approved by senior (Estates) management and the District Valuer. Nevertheless, further focus will be applied to future valuations to consider whether the approach being recommended is relevant to the exercise being undertaken. **Responsible Officer:** Estates Manager **Target date:** 2016/17 valuation exercise	Medium

Key: High Priority Medium Priority Low Priority

Action Plan

Our recommendations for improvement (continued)

Area	Observation	Management response	Priority
Property Plant and Equipment	The scope of the District Valuers input needs to be examined and possibly extended to include the review of the actual valuations.	We will review whether to extend the District Valuer's input to include a review of actual valuations. **Responsible Officer:** Estates Manager **Target date:** 31 December 2016	Medium
Property Plant and Equipment	We continue to recommend that the Valuer seeks further input from senior management (Estates) and their external consultants (District Valuer) prior to devising schemes of valuation and that these are critically reviewed prior to adoption. Our overall recommendation on these schemes is to simplify the approach in each case and for the Valuer to ensure that they are valuing individual assets rather than developing a scheme which may not be suitable for all the relevant assets.	The valuer did seek input from senior (Estates) management and the District Valuer prior to devising the schemes of valuation. It was the view of senior (Estates) management that the proposed schemes were suitable. The District Valuer was asked to review the schemes in detail and approved them as suitable. As mentioned above, valuation approach can be a matter of opinion. We respect the opinion put forward that the schemes of valuation should be simplified and will assess any future schemes against this opinion. We agree that adopting a scheme of valuation should never be allowed to cloud the issue that it is individual assets that are being valued. **Responsible Officer:** Estates Manager **Target date**: 31 December 2016	Medium
Fixed Asset Register	A full reconciliation of the Fixed Asset Register was not available at the time the draft accounts were prepared. We recommend that regular reconciliations are performed throughout the year, with any anomalies followed up, to ensure that the year-end register fully reconciles prior to the draft accounts being prepared.	Agreed. Regular reconciliations will commence in October 2016 **Responsible Officer:** Corporate Finance Manager **Target date:** 31 October 2016	Medium

Key:

High Priority

Medium Priority

Low Priority

Action Plan (continued)

Our recommendations for improvement (continued)

Area	Observation	Management response	Priority
Council Tax Bad Debt Provision	We have noted that the Council has taken on board our prior year recommendations and performed a review of the provision part way through the year, however we continue to recommend that this is done on a more regular basis.	We will build in a more regular review of this provision, and assess the value of this over this financial year. **Responsible Officer:** Corporate Finance Manager **Target date:** 31 March 2017	Medium
Charitable Trusts	Those responsible for managing the charities and preparing the accounts should have appropriate training to ensure that they are fully aware of all the requirements of the SORP.	It is agreed that we need a better understanding of the requirements of the charities SORP, and further training will be undertaken over this financial year. **Responsible Officer:** Corporate Finance Manager **Target date:** 28 February 2017	Medium
Charitable Trusts	Now that the amalgamation of charities into ACT2 has been completed, we would recommend that the Council revisit its ledger coding structure to try and simplify the level of detail for the charities. At the year-end, a clear audit trail is required from the ledger transactions to the draft financial statements.	A review of the audit working papers for charitable trusts will be undertaken. This will help with the need for a clearer audit trail. This stage will be completed by 28 February 2017. The review of the coding structure is likely to take longer to complete as we need to build up familiarity with the current structure first. **Responsible Officer:** Corporate Finance Manager **Target date:** 31 January 2018	Medium

Key;

High Priority — Medium Priority — Low Priority

Action Plan (continued)

Our recommendations for improvement (continued)

Area	Observation	Management response	Priority
Highway Network Assets	The Council should consider the identified risk areas as noted on page 22 and action required over the next six months to ensure that appropriate plans are in place to bring Highway Network Assets on Balance Sheet at the appropriate valuation.	An action plan will be updated, taking account of the risks areas noted, to ensure that the Highways Network Asset is reflected on the balance sheet at the appropriate value. **Responsible Officer:** Corporate Finance Manager **Target date:** 31 December 2016	Medium
NFI	The Council must review its arrangements for following up NFI data matches as a priority to ensure that any potential frauds or errors are identified and followed up timeously. The self appraisal checklist from the Audit Scotland 2014 report should be used to assist with planning and monitoring progress.	An action plan has been prepared to allow data matches from the 2016 NFI exercise to be carried out **Responsible person**: Service Manager (Support and Advice) **Target date:** 31 January 2017	Medium
Financial Management	A number of the variances noted are similar to those reported in previous years, which questions whether the previous year results were fully considered as part of the current year budget setting process. There is scope for the Council to consider whether the budget process and forecasting is adequately taking into account historical trends.	A thorough review of the monitoring and forecasting process was undertaken with all accountants in February 2016. This resulted in more accurate forecasting, and it is considered that the forecasting process is robust. The current budget process is in the process of being reviewed, with revisions to the processes planned for 2017- 22 budget**.** **Responsible Officer:** Head of Finance **Target date:** 30 June 2017	Medium

Key:

High Priority · Medium Priority · Low Priority

Action Plan (continued)

Follow up of prior year actions

We have followed up the recommendations included in our 2014/15 annual report and summarised below the progress made against each of these. While we have noted that progress has been made on some of the actions, a number are only partially implemented, as detailed below. Management should ensure that achievable timescales are agreed so that these actions are implemented timeously.

The more significant outstanding recommendations have been included again within out action plan on pages 50-53 in relation to:

- PPE – scheme of valuations
- Highway Network Assets
- NFI
- Fixed Asset Register

Key Areas	Fully Implemented	Partially Implemented	Not Implemented
Property, plant & equipment	1	1	1
Journals	1		
Monthly monitoring	1		
Fixed Asset Register		2	
Governance reviews		1	
Benefits realisation plans			1
Standardisation of reporting	1		
Targeted intervention	1		
NFI Data Matches			1
Management commentary	1		
Annual Governance Statement		1	
Total	**6 (43%)**	**5 (36%)**	**3 (21%)**

Fraud responsibilities and representations

Responsibilities explained

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. 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.

Required representations

We have asked the Council to confirm in writing that you have disclosed to us the results of your own assessment of the risk that the financial statements may be materially misstated as a result of fraud and that you are not aware of any fraud or suspected fraud that affects the entity.

We have also asked the Council to confirm in writing their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

Audit work performed

- In our planning we identified the risk of fraud in other income recognition and management override of controls as a key audit risk for the Council.
- During the course of our audit, we have had discussions with management and those charged with governance.
- In addition, we have reviewed management's own documented procedures regarding the fraud and error in the financial statements.

Concerns

As set out above we have identified the risk of fraud in revenue recognition and management override of controls as a key audit risk for your organisation.

Independence and fees

There are no issues we wish to raise to you

As part of our obligations under International Standards on Auditing (UK & Ireland), we are required to report to you on the matters listed below:

Independence confirmation	We confirm that we comply with APB Ethical Standards for Auditors and that, in our professional judgement, we and, where applicable, all Deloitte network firms are independent and our objectivity is not compromised.
Fees	The audit fee for the year from 1 April 2015 to 31 March 2016 is £406,000 (inclusive of Audit Scotland fixed charge) and is within the indicative fee range set by Audit Scotland. Non-audit services fees charged by Deloitte were £7,595, the details of which are shown in the table below.
Non-audit services	In our opinion there are no inconsistencies between APB Ethical Standards for Auditors and the Board's policy for the supply of non-audit services or of any apparent breach of that policy. We continue to review our independence and ensure that appropriate safeguards are in place including, but not limited to, the rotation of senior partners and professional staff and the involvement of additional partners and professional staff to carry out reviews of the work performed and to otherwise advise as necessary.
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.

Nature	Scope	Fee amount	Safeguard
Construction Industry Scheme (CIS) review	Review of the controls and procedures in place for the CIS processes.	£7,595	Independent team

Events and publications

Our events and publications to support the Council

Sharing our informed perspective

We believe we have a duty to share our perspectives and insights with our stakeholders and other interested parties including policymakers, business leaders, regulators and investors. These are informed through our daily engagement with companies large and small, across all industries and in the private and public sectors.

Recent publications relevant to the NHS are shared below:

Perspectives: Health & Social Care - The great integration challenge
Bringing health and social care closer together has been a policy ambition for decades, yet it continues to be a challenge. This new piece discusses some of the key factors that affect integration and what can realistically be achieved. Read the full blog post here: http://www2.deloitte.com/uk/en/pages/public-sector/articles/the-great-integration-challenge.html

Perspectives: The public sector's talent retention challenge – How can a talent drain be avoided?
Although global governments are increasingly conscious of the value of skills, the UK's public sector workforce has been hit hard by austerity. Job losses, low morale and pay freezes have all fuelled concerns of a potential drain. Read the full blog here: http://www2.deloitte.com/uk/en/pages/public-sector/articles/public-sectors-talent-retention-challenge.html

Publications

Decoding Digital Leadership
Surviving Digital Transformation

Digital transformation is a hot topic in government. The 2010 Spending Review mentioned the word 'digital' only four times in its reform plans, while the 2015 Review mentioned it 58 times. With that context, are senior leaders across government setting their organisations up for digital success?

Digital transformation requires top to bottom organisational transformation, which requires leaders who are willing and able to leverage digital to innovate, fail fast and drive value in an ambiguous context. Are your leaders equipped to drive digital transformation?

Download a copy of our publication here:
http://www2.deloitte.com/uk/en/pages/public-sector/articles/decoding-digital-leadership.html