HENDERSON LOGGIE
Chartered Accountants

Aberdeen City Council

Report to those charged with Governance on the Audit of Aberdeen City Council

2009/10

External Audit Report No: 2010-04

Draft Issued: 29 September 2010

Final Issued: 30 September 2010

Contents

Restriction on Use
This report has been prepared in accordance with our responsibilities under International Standards on Auditing and Audit Scotland's *Code of Audit Practice* for the audit of Aberdeen City Council's financial statements. Our audit does not necessarily disclose every weakness and for this reason the matters referred to in this report may not be the only shortcomings which exist.

We take this opportunity to remind you that:

- this report has been prepared for the sole use of Aberdeen City Council and their Audit and Risk Committee and will be shared with the Accounts Commission and Audit Scotland
- no responsibility is assumed by us to any other person who may choose to rely on it for his or her own purposes

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1. Introduction and Status of the Audit

Introduction

1. International Standard on Auditing (ISA) 260: **Communication of Audit Matters with Those Charged with Governance,** requires auditors to communicate matters relating to the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action to be taken prior to the issue of the audit certificate.

2. ISA 260 requires us to highlight:

- the integrity and objectivity of the audit engagement partner and audit staff
- the nature and scope of the audit, including any limitations, and the form of reports expected to be made
- views about the selection of, or changes in, significant accounting policies and practices that have, or could have a material effect on the financial statements
- the potential effect on the financial statements of any material risks and exposures that are required to be disclosed in the financial statements
- audit adjustments that have a material effect on the financial statements
- material uncertainties related to events and conditions that may cast significant doubt on the ability to continue as a going concern
- any disagreements with management about matters that, individually or in aggregate, could be significant to the financial statements or our audit opinion
- expected modifications to our audit report
- material weaknesses in the accounting and internal control systems identified during the audit
- matters specifically required by other auditing standards to be communicated and any other matter relevant to the audit.
- unadjusted misstatements (other than those which are trivial)

3. We agreed with the management and Members of Aberdeen City Council (the Council) that the communications required under ISA 260 would be with the Convenor and Vice Convenor of the Audit and Risk Committee together with the Head of Finance.

Status of the Audit

4. Our work on the financial statements is now complete.

5. We attach at Appendix I our proposed unqualified auditors' report.

Next Steps

6. We are drawing these matters to the attention of the Convenor and Vice Convenor of the Audit and Risk Committee and the Head of Finance so that they can consider them before the financial statements are approved and certified.

7. We would like to take this opportunity to thank the Council's finance staff for their co-operation and assistance during our audit.

2. Matters to be Reported to Those Charged with Governance

Integrity and objectivity, nature and scope of the audit

8. Information on our audit appointment and details of the engagement partner and audit staff, and the nature and scope of the audit, were outlined in our **Risk Assessment, Annual Audit Plan and Fee Proposal for 2009/10** (Annual Plan), Report 2010-01 issued on 18 February 2010 and presented to the Audit and Risk Committee thereafter. Further information is provided in the Code of Audit Practice prepared by Audit Scotland.

9. As external auditors, we are required to communicate on a timely basis all facts and matters that may have a bearing on our independence. We provided no consultancy or non audit services to Aberdeen City Council during the year and can confirm that we have complied with the Auditing Practices Board Ethical Standard 1 – Integrity, Objectivity and Independence. In our professional judgement the audit process has been independent and our objectivity has not been compromised.

Accounting policies and practices

10. In our opinion there are a number of issues that require to be brought to your attention regarding the appropriateness of the Council's accounting policies and practices.

11. A sum of £0.247 million has been recognised within the financial statements for income due from Scottish Water in respect of commission for amounts collected through Council Tax payments. As the Council has a 95% recovery rate for Council Tax payments, it has considered that any bad debt against this sum would be minimal. However, as the commission is only due on amounts collected, consideration should be given as to whether amounts should only be recognised when they are received, rather than recognising a Debtor on the Balance Sheet.

12. In the draft Housing Revenue Account (HRA), the rents income had been incorrectly reduced after the year-end by £0.531 million, as part of the housing rents reconciliation (final cash draw down). Following discussion with the Corporate Accounting Manager, we understand this figure represents additional Debtors (rent arrears) at the year-end not reflected in the financial statements. It is accepted that the bad debt provision may also require to be increased, however, a breakdown of the debtors accounts at 31 March 2010 is no longer available to allow an appropriate provision to be calculated. Although no adjustment has been made to the financial statements, this practice will be reviewed in 2010/11 to ensure that sufficient information is available to allow the correct treatment to be applied. (also see further comments on this at paragraph 51 under uncorrected misstatements).

13. The Council is required by legislation to set a license fee for Houses of Multiple Occupancy (HMO) that covers the costs of administering the licensing function. For 2009/10 the fees set generated a surplus higher than might reasonably be expected. The fees set also prompted a complaint to be made to Audit Scotland. The Council has reconsidered the fees set and has agreed to reduce fees and alter scales with effect from midnight on 28 September 2010. We are satisfied that the revised fees have been set at a level anticipated to cover costs without an unreasonable surplus being created. Going forward the Council should arrive at the fees to be charged with reference to budgeted costs and take into consideration any over or under recovery from the previous year.

14. In accordance with the Statement of Recommended Practice (SORP) requirements, the Council should treat land and buildings as separate components for valuation purposes and any downward revaluations should be taken to the Income and Expenditure Account as impairments. A material audit adjustment was agreed to correct errors in 2007/08 that had

been incorrectly taken to the Revaluation Reserve (see material audit adjustment No. 2 in Table 1)

15. In previous years we requested that the Council work to improve the quality of the information presented to us for audit. Guidance was issued by the Corporate Accounting Manager to all finance staff on "*audit file structure, standard documentation and completion of working papers*". We also issued our "*Working Papers Requested List"* detailing the information we required for each area of the audit. While a number of files received were fully referenced, with a clear audit trail, a number were difficult to follow and had information missing, which had to then be requested. The file content's quality was also not always sufficient to demonstrate that transactions were recorded correctly and were relevant and justified. Our Year-end Management Letter will provide specific details on these issues, incorporating an Action Plan for Management to address.

16. In previous years, we commented on the adequacy of the resources within the finance section to be able to maintain a robust financial system to produce accounts and other information which is both timely and accurate. As noted above, there remain a number of areas where the adequacy of resources should be considered. While the balance of appropriate staff numbers and relevant skill sets is an issue for management to address, we will discuss these areas with management and comment on the issue in our Report to Members.

Material risks and exposures

17. Our **Financial Statements Audit Plan,** Report 2010-02 issued on 27 May 2010 to the Head of Finance identified a number of material risks and exposures faced by the Council that may impact on the financial statements. Comments on these issues are included in the following paragraphs.

18. The Council made the appropriate SORP disclosures for the 3Rs PPP project. Some audit adjustments were made to the figures in the draft financial statements.

19. The Council made the appropriate SORP disclosures for pension fund liabilities.

20. Appropriate provision has been made for the equal pay claims still to be settled across the Council. The provision on the Balance Sheet for equal pay costs at 31 March 2010 amounts to £9.850 million, based on advice from the Council's legal advisors.

21. The Council made the appropriate SORP disclosures for Non Domestic Rates (NDR).

22. Within the Significant Trading Operations (STOs), Letting of Industrial, Commercial and other Properties has made a cumulative loss over the last three years. The Local Government in Scotland Act 2003 requires an authority to achieve a breakeven position over a rolling 3 year period. The fact that an accumulated loss has been sustained for this STO has been reported as a failure to comply within our audit report as an explanatory paragraph.

23. We expect to achieve the revised audit deadline of 1 October for the audit of the Whole of Government Accounts return. The return will need to be updated for the changes to the Council's financial statements and the Scottish Government has highlighted some issues in the draft return that will need to be resolved before the final audited return is submitted.

24. Work is ongoing to restate the 2009/10 financial statements on an International Financial Reporting Standards (IFRS) basis.

2. Matters to be Reported to Those Charged with Governance

25. We have received an update of the action plan management developed to address the recommendations in our **Year-End Management Letter 2008/09,** Report 2009/09. We shall review the progress identified by management and complete our follow-up report in due course. From our audit work in 2009/10, we have noted progress has been made in a number of areas. However, we have also noted that some of the recommendations have not been fully implemented and we will address these with management as part of our follow-up review.

26. At the Council meeting in August 2010, it reaffirmed its position in relation to the continuation of support for the Aberdeen Exhibition and Conference Centre (AECC) and agreed to extend the repayment terms of the £7.5 million loan until May 2017. This has been fully disclosed in the financial statements.

27. The Council has complied with the statutory regulations relating to the use of reserves.

28. The Statement of Total Recognised Gains and Losses has been correctly stated, with no amounts described as “other” gains/ losses in 2009/10.

29. A completed Chartered Institute of Public Finance and Accounting (CIPFA) Disclosure Checklist was received at the time the draft accounts were prepared. This confirmed that the accounts met the SORP disclosure requirements in all material respects.

30. There are no other issues relating to these risk areas that require to be brought to your attention. Further comments on some of these issues will be provided in our Report to Members.

Audit adjustments

31. Definitions of material, significant and trivial in terms of the audit are detailed at Appendix III.

32. Three material, twenty significant and fifteen trivial audit adjustments were identified during the course of our audit and were discussed with the Finance Team. These included three significant adjustments impacting only on the group financial statements and three significant and two trivial adjustments only impacting on the Pension Fund Account. All of the material and significant proposed audit adjustments were agreed and the financial statements amended, with the exception of one significant adjustment. All of the trivial adjustments were also agreed and the financial statements adjusted for all but five of these. **Tables 1, 2 and 3: Audit adjustments – impact on the financial statements** below highlights a summary of the impact on the financial statements. Appendix II provides further information on each audit adjustment and its impact on the financial statements. Unadjusted misstatements are covered at paragraph 51 below.

33. The Council’s Group Accounts were adjusted to include the final audited results of the Grampian Police, Fire and Rescue, and Valuation Joint Boards, AECC Limited, Mountwest 343 Limited, the Common Good and the Trust Funds. Aberdeen Sports Village Ltd’s results were included based on management accounts to 31 March 2010.

34. A significant number of presentational changes to the notes to the accounts were also required to ensure compliance with the SORP. In addition, a significant number of notes had not been updated from the previous year and several did not add or tie back to the figures in the main financial statements.

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2. Matters to be Reported to Those Charged with Governance

35. The net effect of the agreed adjustments on the Income and Expenditure Account for 2009/10 was £0.493 million, increasing the deficit reported in the draft accounts of £42.280 million to £42.773 million.

36. A number of the adjustments to the Income and Expenditure Account relate to book entries which are subsequently adjusted further within the Statement of Movement on the General Fund Balance (SMGFB). As a result, £0.220 million impacted on the General Fund balance, changing the increase in the draft accounts of £5.904 million to £5.684 million.

37. The audit adjustments impacting on the Council's Balance Sheet increased the Total Net Worth by £0.647 million to £898.626 million at 31 March 2010.

38. The net effect on the group's reported deficit on the Group Income and Expenditure Account was £2.136 million increasing the deficit in the draft accounts of £59.407 million to £61.543 million.

39. The Pension Fund Accounts at 31 March 2010 were also adjusted by £2.697 million increasing the Net Assets to £1.990 billion. There were no adjustments to the Transport Pension Fund Accounts, which reported Net Assets of £60.634 million at 31 March 2010.

Table 1: Material Audit adjustments – impact on the financial statements

Ref	Description	Revenue		Balance Sheet	
		DR	CR	DR	CR
		£'000	£'000	£'000	£'000
1	**Western Peripheral Route (WPR)**				
	Infrastructure Assets				8,195
	Assets Under Construction			8,195	
	I&E Net Cost of Services (Roads) - Depreciation		592		
	Assets Under Construction (AUC)			592	
	SMGFB	592			
	Capial Adjustment Account				592
	being reallocation of costs for WPR to AUC, and removal of depreciation				
2	**Impairment of Fixed Assets - Prior Period Adjustment**				
	Revaluation Reserve				15,514
	Capital Adjustment			15,514	
	being building impairments in 07/08 which were incorrectly netted off against gains in the Revaluation Reserve (no adjustment to I&E/ GF as relates to 07/08)				
	TOTAL SINGLE ENTITY ACCOUNTS	***592***	***592***	***24,301***	***24,301***
3	**Adjustments to AECC Audited Accounts**				
	I&E Account	1,643			
	Intangible Assets				1,559
	Tangible Assets			13,481	
	Debtors			3	
	Creditors due within one year				38
	Creditors due after more than one year				35
	Revaluation Reserve				13,495
	being adjustments to AECC audited accounts, including revaluing its fixed assets to be in line with Group Accounting policies				
	Single Entity Adjustments	*592*	*592*	*24,301*	*24,301*
	TOTAL - GROUP ACCOUNTS	***2,235***	***592***	***37,785***	***39,428***

2. Matters to be Reported to Those Charged with Governance

Table 2: Significant Audit adjustments – impact on the financial statements

Ref	Description	Revenue DR £'000	Revenue CR £'000	Balance Sheet DR £'000	Balance Sheet CR £'000
1	**Waste Management**				
	Provisions			878	
	Creditors				878
	being carry forward funding under the Zero Waste Fund incorrectly classified as a provision				
2	**HB/ CTB Benefit Debtor**				
	Council Tax Benefit Subsidy	628			
	Debtors				628
	being the Prior Year HB/ CTB Debtor not being reversed				
3	**Non Domestic Rates (NDR)**				
	Creditors			443	
	Debtors				443
	being netting off of NDR credit balances against SG debtor (Current Year)				
	Creditors			262	
	Debtors				262
	being netting off of NDR credit balances against SG debtor (Prior Year)				
4	**Chris Anderson Stadium/ Aberdeen Sports Village Land**				
	Non-Operational Assets Under Construction				427
	Non-Operational Investment Assets			427	
	being reallocation of land leased to Aberdeen Sports Village to Investment Assets				
5	**Stock Issue and Gas Annuity**				
	Borrowing repayable within a period in excess of 12 months			2,503	
	Borrowing repayable on demand or within 12 months				2,503
	being Long Term Liability which now only has less than 12 months to run				
6	**Cremator equipment**				
	Fixed Assets additions (plant and equipment)			972	
	Fixed Assets Additions (land and Buildings)				972
	being Cremator equipment reallocated				
7	**Landfill at Ness**				
	Operational Land & Buildings				4,906
	I&E Impairment	4,906			
	SMGFB		4,906		
	Capital Adjustment Account			4,906	
	being impairment of landfill costs incurred, revaluing site to zero				
8	**Revaluation Reserve/ Capital Adjustment Account**				
	Revaluation Reserve (remove negative charges to RR)			730	
	Revaluation Reserve (adjustment to depreciation charge to RR - 08/09)				102
	Revaluation Reserve (adjustment to depreciation charge to RR - 09/10)			126	
	Capital Adjustment Account				754
	being adjustments required to correct entries identified in 08/09 and 09/10				
9	**Police Capital Grant**				
	General Government Grants (current year)		900		
	Joint Boards (current year)	900			
	General Government Grants (prior year)		1,189		
	Joint Boards (prior year)	1,189			
	being Police Capital Grant income, to be matched against corresponding expenditure in the Net Cost of Services				
	SUB-TOTAL - CARRIED FORWARD	***7,623***	***6,995***	***11,247***	***11,875***

2. Matters to be Reported to Those Charged with Governance

Table 2: Significant Audit adjustments – impact on the financial statements (cont'd)

Ref	Description	Revenue DR £'000	Revenue CR £'000	Balance Sheet DR £'000	Balance Sheet CR £'000
	BROUGHT FORWARD	***7,623***	***6,995***	***11,247***	***11,875***
10	**PPP - 3Rs Project**				
	Operational Vehicle, Plant and Equipment			4,872	
	Revaluation Reserve - gain				99
	I&E Net Cost of Services (Education)		4,773		
	SMGFB	4,773			
	Capital Adjustment Account				4,773
	being adjustment required to incorporate fixtures and fittings not included in Rydens valuation				
11	**Aberdeen Sports Village - Investment**				
	Long Term Investments			362	
	Available for Sale Financial Assets				362
	Also adjustment to STRGL - (Surplus)/ Deficit for the year arising on revaluation of Available for Sale Financial Assets				
	being revaluation of investment in joint venture to reflect value at 31 March 2010				
12	**PPP - Short Term Liabilities**				
	Long Term Liabilities			1,683	
	Short Term Liabilities				1,683
	being liability in relation to PPP project repayable within 1 year, incorrectly classified as a long term liability				
13	**FRS17 Contributions**				
	I&E - Net Cost of Services (Non Distributed Costs)	400			
	SMGFB		400		
	Note: adjustment also required to STRGL - Actuarial gains/ losses				
	being reversal of actual costs through the ledger (which are replaced by Actuary figures)				
	TOTAL SINGLE ENTITY ACCOUNTS	***12,796***	***12,168***	***18,164***	***18,792***
14a	**NDR Prior Year Adjustment**				
	Creditors			3,870	
	Debtors				3,870
	being prior year adjustment in Single Entity Accounts being omitted from the Group Accounts in error				
14b	**Capital Adjustment/ Revaluation Reserve**				
	Capital Adjustment Account			643	
	Revaluation Reserve				643
	being prior year adjustment in Single Entity Accounts being omitted from the Group Accounts in error				
15	**Adjustments to Mountwest Audited Accounts**				
	Tangible Assets			2,168	
	Revaluation Reserve				2,168
	being adjustments to Mountwest audited accounts, including revaluing its fixed assets to be in line with Group Accounting policies				
16	**Adjustments to Prior Year figures for Associates**				
	Share of Revaluation Reserve of Associates			1,471	
	Profit and Liss Account and Other Reserves				1,460
	Capital Adjustment Account				11
	being adjustments within the Associates not fully reflected in the 2008/09 figures				
	Single Entity Adjustments	*12,796*	*12,168*	*18,164*	*18,792*
	TOTAL - GROUP ACCOUNTS	***12,796***	***12,168***	***26,316***	***26,944***

2. Matters to be Reported to Those Charged with Governance

Table 2: Significant Audit adjustments – impact on the financial statements (cont'd)

Ref	Description	Revenue DR £'000	Revenue CR £'000	Balance Sheet DR £'000	Balance Sheet CR £'000
17	**Pension Fund Accounts (Main Fund)**				
	Assets			2,792	
	Change in Market Value of assets		2,792		
	being difference in portfolio valuation (Harbour Vest)				
18	**Pension Fund Accounts (Main Fund)**				
	Funds held by Investment Managers - Other			654	
	Derivative Contracts				654
	being reallocation of misallocated derivative contract				
19	**Pension Fund Accounts (Main Fund)**				
	Sundry Debtors			398	
	Sundry Creditors				398
	being reallocation of sundry debtors/ creditors				
	TOTAL PENSION FUND	-	***2,792***	***3,844***	***1,052***

Table 3: Trivial audit adjustments – impact on the financial statements

Ref	Description	Revenue DR £'000	Revenue CR £'000	Balance Sheet DR £'000	Balance Sheet CR £'000
1	**Cost of Disposal**				
	SMGFB - General Fund		55		
	SMGFB - Housing Revneue Account (HRA)		191		
	Capital Adjustment Account			246	
	being netting of cost of disposal against gain/ loss in I&E Account, in accordance with the SORP				
2	**Social Work Invoice**				
	Debtors			136	
	Social Work - Income		136		
	being Debtors invoice raised in 2010/11 in relation to 2009/10				
3	**Marishcal College Retention**				
	Fixed Asset Additions			121	
	Creditors				121
	being retention for Marischal College works				
4	**Hanover Street School**				
	Capital Grants & Contributions Deferred Account				146
	I&E Account - Education	146			
	SMGFB		146		
	Capital Adjustment Account			146	
	being incorrect life processed against grant				
5	**Duplicate Debtors Invoices**				
	Creditors			93	
	Debtors				93
	being correction of adjustment for Debtors invoices raised in duplicate - adjust should have been against Debtors (3 Invoices)				
6	**Glencraft Credit Note**				
	I&E Account	46			
	Debtors				46
	being credit note issued in 2010/11, part cancelling a 2009/10 Debtors invoice				
	SUB-TOTAL - CARRIED FORWARD	***192***	***528***	***742***	***406***

2. Matters to be Reported to Those Charged with Governance

Table 3: Trivial audit adjustments – impact on the financial statements (cont'd)

Ref	Description	Revenue		Balance Sheet	
		DR	CR	DR	CR
		£'000	£'000	£'000	£'000
	BROUGHT FORWARD	***192***	***528***	***742***	***406***
7	**Aberdeenshire Invoice**				
	Creditors			72	
	I&E Account - Social Work		72		
	being saving negotiated on outstanding invoice for 2009/10, resulting in year-end Creditor being overstated				
8a	**Summerhill Academy - Revaluation**				
	Fixed Assets			279	
	Revaluation Reserve				279
	being correction to depreciation charge on asset on 07/08 revaluation				
8b	**Summerhill Academy - Depreciation**				
	Fixed Asset			60	
	I&E Account		60		
	SMGFB	60			
	Capital Adjustment Account				60
	being correction of overstated depreciation				
	TOTAL - SINGLE ENTITY	***252***	***660***	***1,153***	***745***
9	**Pension Fund Accounts (Main Fund)**				
	Change in Market Value of assets	49			
	Assets				49
	being difference in portfolio valuations (Baillie Gifford)				
10	**Pension Fund Accounts (Main Fund)**	46			
	Change in Market Value of assets				46
	Assets				
	being difference in portfolio valuations (RREEF)				
	PENSION FUND ACCOUNTS	***95***	***-***	***-***	***95***

Material uncertainties

40. There are no material uncertainties relating to events and conditions that cast significant doubt on the Council's ability to continue as a going concern.

Fundamental disagreements

41. There are no areas of disagreement with management that, individually or in aggregate, have a significant impact on the financial statements and our audit report.

Modifications to the audit report

42. Local authorities have a duty under Section 10 of the Local Government in Scotland Act 2003 to conduct each of their significant trading operations so that income is not less than expenditure over each three year period. The authority failed to comply with this statutory requirement for the three year period ending 31 March 2010 in respect of the letting of industrial, commercial and other properties significant trading operation.

2. Matters to be Reported to Those Charged with Governance

43. While we are required to refer to this issue within our audit report as a failure to comply with a statutory requirement, it has not been necessary to qualify our opinion in respect of this matter.

Accounting and internal controls

44. No material weaknesses in the accounting and internal control systems were identified during the audit which would adversely affect the ability to record, process, summarise and report financial and other relevant data so as to result in a material misstatement in the accounts. However, there continues to be a number of weaknesses that have been reported by us for a number of years and the time taken to address these does cause some concern.

45. Some opportunities to improve internal control, have been reported during the year in reports to management and the Audit and Risk Committee. The more significant issues will be highlighted in our Report to Members.

46. The Council has noted a £25,000 difference in the NDR for prior years calculated using movements in prior year NDR system balances during 2009/10 when compared against the amounts shown in the NDR system reports. The Council plans to follow this up with the software supplier to determine the reason for the difference.

47. As reported in previous years, a difference has been identified between the number of Council Houses held within the Fixed Asset Register and the number with the HRA account. A full reconciliation is required to ensure all movements on and off charge are correctly accounted for to ensure that the HRA income is fairly stated. Assurances have been given that this will be fully resolved during 2010/11 as part of the Council House revaluation exercise being carried out by the Council's external valuers.

48. We have previously recommended that the Council carry out regular reconciliations of the Housing Rents income between the Housing Rents system and the General Ledger. The reconciliation was carried out at the year-end by finance staff which highlighted differences which were not investigated prior to the audit. The audit highlighted the practice of adjusting the rental income with the final cash draw down as previously reported at paragraph 12. It also highlighted non-housing rents within the Rents system which when transferred to General Ledger are subsequently and correctly transferred out of the HRA to Housing General Services. The reconciliation also showed that housing rents in advance (prepayments) are adjusted against the Housing Rents in the General Ledger (also see other matters, paragraph 50). Due to the complexity of this area, we believe that this Housing Rents reconciliation is a key control that should be carried out regularly throughout the year, with all differences fully investigated. This should ensure that entries are correctly posted to the General Ledger and subsequently reflected in the financial statements.

Other relevant matters

49. The Chancellor of the Exchequer announced in his Emergency Budget on 22 June 2010 that the consumer price index (CPI) rather than the retail price index (RPI) will be the basis for future public sector pension increases. In accordance with paragraph 21 of Financial Reporting Standard 21 (events after the balance sheet date), this change is deemed to be a non-adjusting post balance sheet event and Note 18 to the Balance Sheet, "Post Balance Sheet Events" was amended to include the necessary disclosure.

2. Matters to be Reported to Those Charged with Governance

Uncorrected misstatements

50. There were 6 potential misstatements that have not been adjusted for, which are summarised in Table 4 below. We have concluded that individually and in aggregate these unadjusted misstatements do not have a material effect on the financial statements or on our audit opinion. If these misstatements had been adjusted in the final accounts, the net impact would have been to increase the General Fund balance by £0.632 million.

Table 4: Unadjusted errors – impact on the financial statements

Ref	Description	Revenue		Balance Sheet	
		DR	CR	DR	CR
		£'000	£'000	£'000	£'000
	Significant Uncorrected Misstatement				
1	**Housing Rent - Additional Debtors**				
	Debtors			531	
	Income - Housing Rent		531		
	being additonal Housing Debtors not reflected in the accounts				
	Trivial Uncorrected Misstatements				
2	**ICT Invoice**				
	Debtors				21
	ICT - Expenditure	21			
	being 1 month of Novell contract consumed within 2009/10 (full 12 months incorrectly shown as Debtor)				
3	**Bank**				
	Bank Overdraft			67	
	I&E Account		67		
	being income in bank account, not in ledger at 31/03/10				
4	**Hostel Grant**				
	Creditors			16	
	HRA - Housing Support Grant		16		
	being correction of Hostel Grant in HRA				
5	**VAT Debtor**				
	Creditors			108	
	Debtors				108
	being difference between the Feb/ March VAT Return and the VAT Debtor (relating to car park parking assessment)				
6	**HMO Licence Fees**				
	Debtors			39	
	Income		39		
	being HMO Licence Fee income relating to 2009/10 incorrectly posted to 2010/11				
	TOTAL - UNADJUSTED ERRORS	***21***	***653***	***761***	***129***

Appendix I – Independent auditors' Report (proposed)

Independent auditors' report to the members of Aberdeen City Council and the Accounts Commission for Scotland

We certify that we have audited the financial statements of Aberdeen City Council and its group for the year ended 31 March 2010 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Statement of Total Recognised Gains and Losses, Balance Sheet, Cash Flow Statement and the Notes to the Core Financial Statements, the Housing Revenue Income and Expenditure Account, Statement of Movement on the HRA Balance, Notes to the Housing Revenue Account, the Council Tax and Non Domestic Rate Income Accounts and the related notes, the Group Accounts and the Notes to the Group Accounts, the Pension Fund Accounts and related notes, Trading Operations – Summary of Results, Loans Fund, City Improvement Fund, Common Good, Trust Funds and Endowments and the Statement of Accounting Policies. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 123 of the Code of Audit Practice approved by the Accounts Commission for Scotland, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Respective responsibilities of the Head of Finance and Auditors

The Head of Finance's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009 - A Statement of Recommended Practice (the 2009 SORP) are set out in the Statement of Responsibilities for the financial statements.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland.

We report our opinion as to whether the financial statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2009 SORP, and have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

In addition, we report to you if, in our opinion, the local government body has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We review whether the Annual Governance Statement reflects compliance with the SORP, and we report if, in our opinion, it does not. We are not required to consider whether this statement covers all risk and controls, or form an opinion on the effectiveness of the local government body's corporate governance procedures or its risk and control procedures.

We read the other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword by the Head of Finance. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

HENDERSON LOGGIE

Appendix I – Independent auditors' Report (proposed)

Basis of audit opinion

We conducted our audit in accordance with Part VII of the Local Government (Scotland) Act 1973 and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board as required by the Code of Audit Practice approved by the Accounts Commission. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Head of Finance in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the local authority's and its group circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements

- give a true and fair view, in accordance with relevant legal and regulatory requirements and the 2009 SORP, of the financial position of Aberdeen City Council and its group as at 31 March 2010 and the income and expenditure of Aberdeen City Council and its group for the year then ended; and

- have been properly prepared in accordance with the Local Government (Scotland) Act 1973.

Failure to comply with a statutory requirement

It has not been necessary to qualify our opinion in respect of the following matter.

Local authorities have a duty under Section 10 of the Local Government in Scotland Act 2003 to conduct each of their significant trading operations so that income is not less than expenditure over each three year period. The authority failed to comply with this statutory requirement for the three year period ending 31 March 2010 in respect of the Letting of Industrial, Commercial and other Properties significant trading operation.

Henderson Loggie
Chartered Accountants
Registered Auditors
48 Queens Road
Aberdeen
AB15 4YE

30 September 2010

HENDERSON LOGGIE

Appendix II – Audit adjustments

Material Audit Adjustments

Impacting on the Single Entity Financial Statements

1. Western Peripheral Route - £8.195 million and £0.592 million

The capital costs incurred to date by the Council were found to have been incorrectly allocated to "Infrastructure Assets" within the Balance Sheet. As this road has yet to be built, it is more appropriate to allocate to "Assets Under Construction", which does not attract depreciation. The depreciation charged to date of £0.592 million has therefore also been reversed out of the Income and Expenditure Account. This has no impact on the General Fund balance carried forward.

2. Impairment of Fixed Assets - £15.514 million (prior period adjustment)

As part of our review of movements on the revaluation reserve, we identified a number of negative adjustments included in the calculation of the depreciation on historic cost and revaluation basis, which were as a result of downward revaluations of buildings (which attract depreciation), which had been netted off with upward revaluations of the corresponding land (which does not attract depreciation) as part of the 2007/08 revaluations. The SORP requires the land and building to be treated as individual components, therefore the downward revaluations should have been charged to the Income and Expenditure Account in the year, rather than the Revaluation Reserve. An adjustment was therefore required to re-instate these values within the Revaluation Reserve. As the charge to the Income and Expenditure Account in 2007/08 would then be reversed out through the Statement of Movement on General Fund Balance, this has no impact on the General Fund balance carried forward. This adjustment is based on the Council's best estimate of the reduction in building values, and will be fully investigated as part of 2009/10 restatement work required to produce IFRS compliant accounts in 2010/11.

Council Officers have confirmed that no similar error has occurred in 2008/09 or 2009/10.

Impacting on the Group Financial Statements

3. AECC Limited – Audit Adjustments - £18.592 million

The Group Financial Statements were adjusted to reflect the audit adjustments made to the AECC Limited single entity accounts. The most significant of these are as follows:

- The accounting policies of all group entities must be aligned to those of the group, therefore the AECC accounts had to be adjusted to reflect the revalued amount of its fixed assets. This resulted in an unrealised gain within the Revaluation Reserve of £13.495 million.
- Costs incurred to date in relation to the potential development of an on site 4 star hotel were fully written off, amounting to £1.662 million.

All the material adjustments impacting on the Council's single entity financial statements also impact on the group.

Appendix II – Audit adjustments

Significant Audit Adjustments

Impacting on Single Entity Financial Statements

1. **Waste Disposal Provision - £0.878 million**
This amount was incorrectly allocated against the Waste Disposal provision within the draft accounts. As it relates to the carry forward of unspent grant income relating to the Zero Waste Fund it is more appropriate to disclose within Creditors.

2. **HB/ CTB Debtor - £0.628 million**
The 2008/09 Debtor in respect of HB/ CTB had not been reversed as part of the opening entries in 2009/10 resulting in the year-end Debtor being overstated. This reduces the General Fund balance carried forward by £0.628 million.

3. **Non-Domestic Rates – Credit Balances - £0.443 million (current year) and £0.262 million (prior year)**
Due to the change in accounting requirements in relation to Non-Domestic Rates in 2009/10, the net amount due to or from the Scottish Government should be identified within the Council's Balance Sheet and there is no requirement to show amounts due to/ from individual tax payers. The above credits relating to overpayments due to tax payers therefore should be offset against the Debtor in the Balance Sheet in both the current year and comparative figures. This has no impact on the General Fund balance carried forward.

4. **Chris Anderson Stadium/ Aberdeen Sports Village Land - £0.427 million**
This amount represents the value of land which is leased to Aberdeen Sports Village. It was incorrectly classified as "Assets Under Construction", and has therefore been re-allocated to "Investment Properties".

5. **Stock Issue and Gas Annuity - £2.503 million**
The Council included the above figures within Long Term Liabilities on the Balance Sheet. As it is now due for repayment within the next 12 months, it has been re-allocated to Short Term Liabilities.

6. **Cremator Equipment - £0.972 million**
Significant capital expenditure has been incurred during 2009/10 in relation to the Crematorium. The full amount was originally included under "Land and Buildings", however, due to the nature of the expenditure, it was considered more appropriate to re-allocate a proportion of these costs to "Plant and Equipment".

7. **Landfill Site at Ness - £4,906 million**
Capital expenditure was incurred during 2009/10 in relation to the above, however, as the Council's valuers have valued this land at a nil value, the expenditure should have been impaired. In accordance with the agreed accounting treatment for similar expenditure in 2008/09, an adjustment has been processed to impair this asset to nil. This has no impact on the General Fund balance carried forward.

8. **Revaluation Reserve/ Capital Adjustment Account - £0.754 million**
As noted in item 2 under Material Audit Adjustments, we identified a number of negative adjustments relating to depreciation, which were as a result of downward revaluation in buildings which were offset by upward revaluation in land. An adjustment was therefore required to correct this error, being a movement between the Revaluation Reserve and the Capital Adjustment Account. Adjustments were also required to correct the depreciation charged to the Revaluation Reserve in both 2008/09 and 2009/10 as the incorrect baseline figures had been used in the original calculation.

HENDERSON LOGGIE

Appendix II – Audit adjustments

9. Police Capital Grant - £0.900 million (current year) and £1.189 million (prior year)

In 2008/09 there was a change to the way that the Police Capital Grant was allocated from the Scottish Government. The money is initially paid to the local authority, who then pass it on to the Police Force. This amount was incorrectly included within the General Government Grants line within the Income and Expenditure Account, therefore has been re-allocated to the relevant line within Net Cost of Services to match against the expenditure in both the current and prior year.

10. 3R's Project – Fixtures and Fittings - £4.872 million

The schools constructed as part of the 3R's project which became operational within 2009/10 have been brought onto the Balance Sheet in 2009/10, based on the financial model costs. These have subsequently been revalued as at 31 March 2010. As the financial model costs included cost for fixtures and fittings whereas the revalued amount does not, an adjustment was required to add back the historic cost of the fixtures and fittings included within the schools. An adjustment was also required to reverse the impairment charged to the Income and Expenditure Account, as the reduction in valuation was due to the omission of the fixtures and fittings rather than an actual reduction in value.

11. Aberdeen Sports Village Investment - £0.362 million

The value of the Council's investment within Aberdeen Sports Village at 31 March 2010 has increased in value from the initial cash investment, however, this had not been revalued in the draft accounts. An adjustment was therefore required to increase the value of the investment.

12. PPP – Short Term Liabilities - £1.683 million

The proportion of the liabilities payable under the PPP project within one year were incorrectly classified as long term liabilities on the Balance Sheet. An adjustment was therefore required to re-allocate this to short term liabilities.

13. FRS17 Contributions - £0.400 million

FRS17 requires costs calculated by the Council's Actuary to be included within the Income and Expenditure Account to replace the actual costs incurred during the year. The Council had incorrectly reversed the Actuary's estimate of the contributions made rather than the actual cash paid. An adjustment was therefore required to increase the amount reversed from the Income and Expenditure Account.

Impacting on Group Accounts

14. Single Entity prior period adjustments - £3.870 million and £0.643 million

A prior period adjustment of £3.870 million was made to the Single Entity accounts to reflect the change in accounting requirements for amounts collected on behalf of central government. However, this adjustment was omitted from the Group Accounts in error.

An adjustment of £0.643 million was also made to the Single Entity accounts to correct the entries through the Capital Adjustment Account and Revaluation Reserve for Associates. This adjustment was also omitted from the Group Accounts in error.

15. Mountwest 343 Limited – Audit Adjustment - £2.168 million

Similar to item 3 under Material Audit Adjustments, the Group Financial Statements were adjusted to reflect the audit adjustments made to the Mountwest 343 Limited single entity accounts. The accounting policies of all group entities must be aligned to those of the group, therefore Mountwest accounts had to be adjusted to reflect the revalued amount of its fixed assets. This resulted in an unrealised gain within the Revaluation Reserve of £2.168 million.

All the significant adjustments impacting on the Council's single entity financial statements also impact on the group.

HENDERSON LOGGIE

Appendix II – Audit adjustments

16. Adjustments to Prior Year figures for Associates - £1.471 million
An error was identified in the final 2008/09 group accounts incorporating adjustments to the share of revaluation reserve of associates, which are shown as comparatives within the 2009/10 draft accounts. An adjustment has therefore been processed to ensure that the comparatives reflect the final 2008/09 accounts of the associates.

Impacting on Pension Fund Accounts

17. Portfolio Valuation – Harbour Vest - £2.792 million
At the time of preparing the accounts, the valuation for investments held with Harbour Vest at 31 March 2010 were unavailable, therefore the accounts were based on the information available from previous valuations. Since the draft accounts were prepared, the valuations have become available, and therefore are to be adjusted for in the final accounts. This increases the net assets of the Pension Fund by £2.792 million.

18. Derivative Contracts - £0.654 million
The working papers provided for the audit identified a mis-allocation on the face of the Pension Fund account between "Derivative Contracts" and "Funds held by Investment Managers – Other". This has no impact on the net assets of the Pension Fund.

19. Sundry Debtors/ Creditors - £0.398 million
Pension Fund officers identified an error in the draft accounts, being a mis-allocation between sundry debtors and creditors, however, this was not identified in time to process within the draft accounts. This has no impact on the net assets of the Pension Fund.

Trivial Audit Adjustments

Impacting on Single Entity Financial Statements

1. Cost of Disposal - £246,000
The cost of disposal of fixed assets which are netted off against the disposal proceeds for fixed assets, should be reversed out through the Statement of Movement on General Fund balance. This was omitted in error, therefore an adjustment was required to correct this.

2. Social Work Invoice - £136,000
A Debtors invoice was raised in financial year 2010/11 for services incurred during 2009/10. This was omitted in error as part of the year-end procedures, resulting in the 2009/10 income being understated.

3. Marischal College Retention - £121,000
The retention due on the work carried out on the Marischal College was omitted from the year-end accruals in error. As this amount is capitalised, the adjustment has no impact on the General Fund balance carried forward.

4. Hanover Street School - £146,0000
The grant received in respect of Hanover Street School was found to have been written off over a different period to the life of the asset. An adjustment was therefore required to correct the amount written off.

5. Duplicate Debtors Invoices - £93,000
Three debtors invoices had been found to have been raised in error, however, the Council has incorrectly adjusted this against the Creditors balance, resulting in both the Debtors and Creditors balances being overstated.

Appendix II – Audit adjustments

6. **Glencraft Credit Note - £47,000**
A credit note was issued in financial year 2010/11 to part cancel an invoice raised in 2009/10, resulting in the Debtors balance, and associated income, at the year-end being overstated.

7. **Aberdeenshire Invoice - £72,000**
An accrual was made at the year-end based on the value of an outstanding invoice, however, savings were subsequently negotiated by the Council, resulting in the Creditors balance, and associated expenditure, at the year-end being overstated.

8. **Summerhill Academy, Revaluation - £279,000 and Depreciation - £60,000**
Adjustments were required to correct the depreciation charged, as they were found to be incorrect.

Impacting on Pension Fund Accounts

9. **Portfolio Valuations – Baillie Gifford - £49,000 and RREEF - £46,000**
At the time of preparing the accounts, the valuations for investments held with Baillie Gifford and RREEF at 31 March 2010 were unavailable, therefore the accounts were based on the information available from previous valuations. Since the draft accounts were prepared, the valuations have become available, and therefore are to be adjusted for in the final accounts. These decrease the net assets of the Pension Fund by £95,000.

Appendix III – Definition of Material, Significant and Trivial in relation to Audit Adjustments

We are required to express an opinion on whether the accounts give a true and fair view of the financial position of the Council. In arriving at that opinion we need to assess any weaknesses, misstatements and errors discovered during our audit testing. Additional information or events in the period between the balance sheet date and the date we sign our audit report must also be considered.

In order to help us to assess the impact of errors we classify them as material, significant or trivial.

Materiality is set at the start of the audit using statistical formula and following consideration of risk. The value for significant and trivial are set in relation to the materiality figure.

Material misstatement and adjustments

Material misstatements are misstatements that, in our opinion, mean that the accounts do not give a true and fair view. Material misstatements discovered during our audit are discussed with management and agreement reached over the required revision for the final audited accounts. Where no agreement is reached to make a material adjustment we would need to consider qualifying our audit opinion.

Significant misstatements and adjustments

Significant items are lower in value than material items, but still of a size that might give rise to the financial statements not giving a true and fair view, particularly if there are several of them, which in total would become material. The Council has the option of adjusting for significant misstatements or not. The impact of any significant misstatements not adjusted for in the final audited accounts would need to be considered and where the combined impact of non-adjusted items was material, this could lead to a qualified opinion. Reasons for non adjustment of significant misstatements are required to be reported to the members.

Trivial errors and adjustments

Trivial errors are those with a fairly low value, and which do not affect the true and fair view of the financial statements. These are recorded and summarised during the audit and the overall total net impact is considered. Individual trivial errors would not require adjustment. If the net total of trivial errors becomes significant or material then there will be an issue to be considered for our report unless the Council agrees to adjust the errors.

Appendix IV – Respective Responsibilities

Respective Responsibilities of Members, Officers and Auditors

Each public sector body is accountable for the way in which it has discharged its stewardship of public funds. Stewardship is a function of both executive and non-executive management and, therefore, responsibility for effective stewardship rests upon both members and officers of a public sector body.

That responsibility is discharged primarily by the establishment of sound arrangements and systems for the planning, appraisal, authorisation and control over the use of resources and by the preparation, maintenance and reporting of accurate and informative accounts.

It is our responsibility to undertake an independent appraisal of the discharge by management of its stewardship responsibilities, to enable us to give an assurance that those responsibilities have been reasonably discharged.

The Council and the Head of Finance's responsibilities for the Financial Statements are set out on page 16 of the Financial Statements. Our responsibility is to form an independent opinion, based on our audit, on the abstract of accounts and to report that opinion to you.

We are required to review whether the Council's Annual Governance Statement reflects the Council's and the group's compliance with the SORP, and we report if, in our opinion, it does not. We are not required to consider whether the statement covers all risk and controls, or form an opinion on the effectiveness of the Council's and group's corporate governance procedures or its risk and control procedures.

Appendix V – Acronyms

AECC	Aberdeen Exhibition and Conference Centre
AUC	Assets Under Construction
CIPFA	Chartered Institute of Public Finance and Accounting
CPI	Consumer Price Index
FRS	Financial Reporting Standard
GF	General Fund
HB/ CTB	Housing Benefit/ Council Tax Benefit
HMO	Housing of Multiple Occupancy
HRA	Housing Revenue Account
I&E	Income and Expenditure Account
ICT	Information, Communication and Technology
IFRS	International Financial Reporting Standards
ISA	International Standard on Auditing
NCS	Net Cost of Services
NDR	Non-Domestic Rates
PPP	Public Private Partnership
RPI	Retail Price Index
RR	Revaluation Reserve
RREEF	Real Estate Investment Management Business
SORP	Statement of Recommended Practice
SMGFB	Statement of Movement on the General Fund Balance
STO	Significant Trading Operation
STRGL	Statement of Total Recognised Gains and Losses
VAT	Value Added Tax
WPR	Western Peripheral Route