



Aberdeen City Council

Annual audit report to the Members of Aberdeen City Council and the Controller of Audit for the year ended
31 March 2020

DRAFT 30 June 2020

	Page
Executive summary	3
Introduction	5
Financial statements and accounting	6
Wider scope and Best Value	23
- Financial management	24
- Financial sustainability	31
- Governance and transparency	35
- Best Value and Value for Money	38
Appendices	42

About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's *Code of Audit Practice* ("the Code").

This report is for the benefit of Aberdeen City Council ("the Council") and is made available to Audit Scotland and the Controller of Audit (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the introduction and responsibilities sections of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Andy Shaw, who is the engagement leader for our services to the Council, telephone 0131 527 6673, email: andrew.shaw@kpmg.co.uk who will try to resolve your complaint. If your problem is not resolved, you should contact Hugh Harvie, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6682 or email to hugh.harvie@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Fiona Kordiak, Director of Audit Services, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

Significant risks

Pages 8-14

- Management override of controls fraud risk Page 8
- Expenditure recognition fraud risk Page 9
- Revaluation of council dwellings, other land and buildings, surplus assets and investment properties Page 10
- Retirement benefits Page 13
- Wider scope areas Page 23

Current Year recommendations

Appendix four
Number

Significant control recommendations

2

Open control recommendations

Significant control recommendations (IT controls)

2

Other control recommendations (IT and general controls)

2

Audit opinion

We expect to issue an unqualified opinion on the truth and fairness of the state of the Council's affairs as at 31 March 2020, and of the deficit for the year then ended.

There were no matters identified on which we are required to report by exception.

At the time of drafting a number of aspects of the audit are substantially complete and progress has been ahead of prior years in most areas. However a significant amount of audit work requires final conclusion, primarily related to complex areas and following receipt of management estimates, adjustments and revised financial statements, in respect of:

- Agreement of complex audit adjustments related to the categorisation and valuation of TECA.
- Agreement of processed audit adjustments related to bond accounting, pensions, AHFS, accruals, in revised financial statements.
- Audit of consolidation and associated adjustments.
- Review of additional disclosures recommended for inclusion in the revised financial statements.
- Receipt of a small number of sample items related to expenditure, remuneration, pensions, treasury.
- Completion of testing in respect of some financial statement disclosures including associated audit checklists and the cash flow statement.

Executive summary (continued)

DRAFT

Uncorrected audit misstatements

Page 49

Understatement/(overstatement)

	£m	%
Deficit on provision of services	(3.6)	0.3
Net assets	3.6	0.3

Corrected audit misstatements

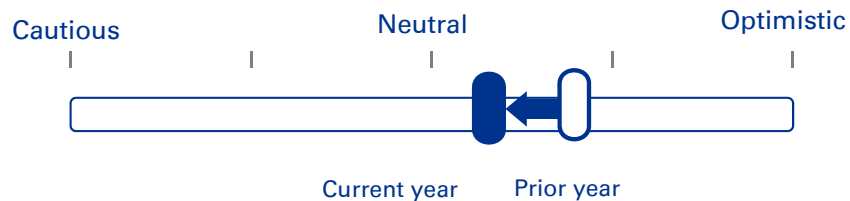
Page 47

Understatement/(overstatement)

	£m	%
Deficit on provision of services	96.9	8.7
Net assets	(96.9)	7.8

Accounting judgements related to estimates

Page 16



Overall we are satisfied with the key accounting judgments taken and that discussion of these matters in the section of the accounting policies appropriately addresses the matters we have communicated to you.

Purpose of this report

The Accounts Commission has appointed KPMG LLP as auditor of Aberdeen City Council (the Council) under part VII of the Local Government (Scotland) Act 1973 (“the Act”). The period of appointment is 2016-17 to 2021-22, inclusive.

Our annual audit report is designed to summarise our opinions and conclusions on significant issues arising from our audit. It is addressed to both those charged with governance at the Council and the Controller of Audit. The scope and nature of our audit are set out in our audit strategy document which was presented to the Audit, Risk and Scrutiny Committee (ARSC) on 12 February 2020.

Audit Scotland’s Code of Audit Practice (“the Code”) sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements but also consideration of wider scope areas. The reports incorporates both aspects of the Code.

Accountable officer responsibilities

The Code sets out Aberdeen City Council’s responsibilities in respect of:

- corporate governance;
- financial statements and related reports;
- standards of conduct for prevention and detection of fraud and error
- financial position; and
- Best Value.

Auditor responsibilities

This report reflects our overall responsibility to carry out an audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK) issued by the Financial Reporting Council and the Code. Appendix seven sets out how we have met each of the responsibilities set out in the Code.

Scope

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks identified are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist.

Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Under the requirements of ISA 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity.

This report to those charged with governance and our presentation to ARSC, together with previous reports to ARSC throughout the year, discharges the requirements of ISA 260.

Limitations on work performed

This Report is separate from our audit report in the annual accounts and does not provide an additional opinion on the Council’s annual accounts nor does it add to or extend or alter our duties and responsibilities as auditors in accordance with the Code.

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report.

The Council will need to consider whether to give public notice in respect of this report under the Market Abuse Regulation as well as the Disclosure and Transparency Rules. We draw attention to the section, “About this report” on the contents page.

Audit opinion

Following approval of the annual accounts by the UBC we expect to issue an unqualified opinion on the truth and fairness of the state of the Council's affairs as at 31 March 2020, and of the deficit for the year then ended. We also expect to issue an unqualified opinion on the truth and fairness of the state of the Aberdeen City Council Charitable Trusts' affairs as at 31 March 2020. The long form audit opinion, prepared as a requirement of the Council's status as an EU Public Interest Entity, in accordance with ISA 700, is included in the annual accounts. There were no matters identified on which we are required to report by exception.

Financial reporting framework, legislation and other reporting requirements

The Council is required to prepare its annual accounts in accordance with International Financial Reporting Standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20 ("the CIPFA Code"), and in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Our audit confirmed that the annual accounts have been prepared in accordance with the CIPFA Code and relevant legislation. The Aberdeen City Council Charitable Trust's financial statements are prepared in accordance with the Charities SORP (FRS 102), the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended). Our audits confirmed that the annual accounts have been prepared in accordance with the relevant charity accounting legislation.

Annual accounts preparation and audit readiness

The statutory deadlines are ordinarily 30 June 2020 for unaudited accounts and 30 September 2020 for audited accounts however due to Covid-19 Scottish Government confirmed that under the Coronavirus (Scotland) Act 2020 local authority bodies can vary the timetable with the statutory deadline extended to require audited accounts by 30 November 2020. This extension is consistent with other sectors and regulator / audit practitioner communications which recognise the additional challenge of preparing and auditing financial statements remotely and additional audit considerations which may be required in respect of the impact of Covid-19.

The Council continued to meet the accelerated financial reporting timetable for 2019-20, with complete draft accounts approved on 6 May 2020 and good support provided to facilitate access to information and complete audit testing. There is scope for officers to more completely consider complex accounting transactions in advance of the audit in order to reduce the likelihood of audit misstatements and reduce the audit duration. **At the time of preparation some areas of the audit are ongoing, largely due to additional consideration being given to areas due to Covid-19 and in respect of judgements and estimates. These are summarised in red text and on page three.**

Statutory reports

We have not identified any circumstances to notify the Controller of Audit that indicate a statutory report may be required.

Other communications

We did not encounter any significant difficulties during the audit. There were no other significant matters arising from the audit that were discussed, or subject to correspondence with management that have not been included within this report. There are no other matters arising from the audit, that, in our professional judgement, are significant to the oversight of the financial reporting process.

Audit misstatements

seven audit misstatements were identified during the audit, of which six were adjusted. There is one unadjusted audit misstatements.

Written representations

Our representation letter does not include any additional representations to those that are standard as required for our audit.

Materiality and summary of risk areas

Materiality

We summarised our approach to materiality in our audit strategy document. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that the level of materiality set at planning was still relevant.

We used a materiality of £9.2 million for the Council's standalone financial statements, and £9.3 million for the Group financial statements. This equates to 1% of cost of services expenditure, adjusted for revaluation decreases recognised in the year. We designed our procedures to detect errors in specific accounts at a lower level of precision than our materiality. For the standalone accounts our performance materiality was £5.8 million. For the Group accounts it was £6 million. We report all identified misstatements greater than £250,000.

Forming our opinions and conclusions

In gathering the evidence for the above opinions and conclusions we:

- performed controls testing and substantive procedures to ensure that key risks to the annual accounts have been covered;
- communicated with the head of internal audit and reviewed internal audit reports as issued to ARSC to ensure all key risk areas which may be viewed to have an impact on the annual accounts had been considered;
- reviewed estimates and accounting judgements made by management and considered these for appropriateness;
- considered the potential effect of fraud on the annual accounts through discussions with senior management and internal audit to gain a better understanding of the work performed in relation to the prevention and detection of fraud; and
- attended ARSC meetings to communicate our findings to those charged with governance, and to update our understanding of the key governance processes.

Significant risks and other focus areas in relation to the audit of the financial statements

We summarise below the risks of material misstatement as reported within the audit strategy document.

Significant risks:

- Management override of controls fraud risk;
- Expenditure recognition fraud risk;
- Retirement benefits*; and
- Revaluation of council dwellings, other land and buildings, surplus assets and investment properties*.

In accordance with paragraph 19A of ISA 700, we are required to describe those assessed risks of material misstatement which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team, in our audit opinion. The * matters shown above have had the greatest effect on the overall audit strategy, the allocation of resources in the audit and on directing the efforts of the engagement team. These are the Key Audit Matters. We report on these areas in our financial statements annual audit opinion.

We also previously identified an audit focus area in respect of Capital Expenditure.

Since preparing the audit strategy the UK entered lockdown and we considered the potential impact of Covid-19 on our audit approach and the identified significant risks and estimates including within the financial statements as part of the audit. Our conclusions are incorporated throughout this report.

KPMG determined that in the current environment there would be a rebuttable presumption of at least a material uncertainty in respect of going concern in all audit opinions. We have rebutted this presumption in respect of the Council.

No further significant risks or other matters were identified during our audit work.

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p>Management override of controls fraud risk</p> <p>Management is typically in a position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>This is an assumed risk per ISA 240 <i>The Auditor's responsibilities related to fraud in the audit of financial statements</i>.</p>	<p>Our audit methodology incorporates the risk of management override as a default significant risk. We did not identify any specific additional risks of management override relating to the audit of the Council.</p> <p>Strong oversight of finances by management provides additional review of potential material errors caused by management override of controls.</p> <p>Our audit procedures included:</p> <ul style="list-style-type: none"> — controls testing and substantive procedures, including over journal entries and accounting estimates (such as over property revaluations and pensions); and — review of significant transactions that are outside the Council's normal course of business, or are otherwise unusual. There are no such external transactions however during 2019-20 the TECA project substantially completed and associated assets were categorised and their values reflected. We do not consider there to be a fraud risk associated with this process. 	<p><i>We did not identify any indicators of management bias or management fraud.</i></p> <p>Our testing of journal entries was satisfactory and we have obtained sufficient audit evidence as a result of the planned procedures. No issues were identified.</p> <p>We challenged management judgements and estimates regarding elements of TECA as summarised on page eleven.</p>

Significant risks (continued)

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p>Expenditure recognition fraud risk</p> <p>Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of income. This requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>We do not consider that there is a significant risk in relation to improper income recognition, given the nature of the Council's income; being primarily statutory, solely related to the financial year, readily supported by third party evidence and therefore has a limited risk of manipulation.</p> <p>We consider that there is not a risk of improper recognition of expenditure in respect of payroll costs, financing and investment expenditure, and depreciation. These costs are routine in nature and have limited risk of manipulation. As other operating expenditure is unlikely to be material, we also rebut the assumed risk in respect of this account.</p> <p>We have not rebutted the assumed risk in respect of the remaining expenditure accounts (£634 million) within the £1,017 million (in 2018-19) gross expenditure.</p>	<p>We performed the following testing:</p> <ul style="list-style-type: none"> — Comparison of the outturn with the in year budget monitoring, considering variances from budgeted reserves utilisation to actual utilisation. — Testing of controls specific to capital versus revenue allocation. — Testing of expenditure cut-off including a search for unrecorded liabilities. — Detailed testing of transactions focusing on the areas of greatest risk, including creditors, accruals and provisions to challenge completeness of these balances. — Review and challenge of management in respect of estimates for evidence of bias. — Testing of journal entries in relation to expenditure for evidence of management bias. 	<p><i>We have concluded that that expenditure is appropriately recognised.</i></p> <p>We obtained sufficient, appropriate evidence for variances from budgeted reserves utilisation to actual utilisation.</p> <p>No exceptions were identified in respect of the specific controls testing, and testing of high risk expenditure journals.</p> <p>Our testing of accruals and transactions post year end identified adjustments 3 and 5 of capital expenditure paid in Apr 2020 but for capital works completed in Mar 2020, which had not been included in the financial statements which may be due to draft accounts preparation deadlines.</p> <p><i>Adjusted audit difference (see page 47)</i></p> <p>No indications of management bias were identified.</p>

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p>Revaluation of council dwellings, other land and buildings, surplus assets and investment properties</p> <p>The CIPFA Code requires that where assets are subject to revaluation, their year end carrying value should reflect the appropriate current value at that date. The Council has adopted a rolling revaluation model which sees certain land and buildings revalued over a five year cycle. In 2019-20 the following assets were revalued:</p> <ul style="list-style-type: none"> — Sports grounds / clubhouses; — 3R's (PPP) schools; — Education House; — Car parks; — Halls; and — Operational miscellaneous. <p>Given the quantum of the carrying values and the inherent use of assumptions in their valuation, we consider there to be significant risk of misstatement.</p> <p>In addition to those assets revalued in year, the Council will have to evidence how it satisfies itself that the other assets not revalued in 2019-20 are not materially misstated.</p> <p>During the year refurbishment of the Aberdeen Art Gallery was completed and the property became operational. Therefore the costs will be transferred from Assets Under Construction into Operational Buildings, at which time a valuation in use will be required.</p> <p>The Council also holds £146 million (as at 31 March 2019) investment property which is subject to annual revaluation and similarly we consider there to be a risk of misstatement arising from the use of assumptions in the valuations.</p>	<p>Our procedures included:</p> <p>Control design:</p> <ul style="list-style-type: none"> — Understanding the extent of the Council's involvement in the valuation process to assess if appropriate oversight occurred. — Assessing the approach that the Council has adopted to evaluate the risk that the carrying value of assets not subject to valuation is materially misstated and consider the robustness of that approach. — Assessing the risk of the valuation changing materially during the year, or between the date of valuation and the year end. <p>Assessing valuer's credentials:</p> <ul style="list-style-type: none"> — In relation to those assets which have been revalued during the year, critically assessing the independence, professional qualifications, competence and experience of the Council valuer. <p>Assessing methodology choice and benchmarking assumptions:</p> <ul style="list-style-type: none"> — Utilising our internal specialist to critically assess the methodology used by the Council's valuer by considering if the valuations are in accordance with the RICS Valuation Professional Standards 'the Red Book' and accounting standards. — Challenging the key assumptions upon which the valuations were based for a sample of properties, by making a comparison to our own assumption ranges derived from market data. — Meeting with the Council's valuer to understand the assumptions and methodologies used in valuing the assets revalued during 2019-20 and the market evidence used to support the assumptions. — Challenging the Council's assessment of why it considers that the land and buildings not revalued in 2019-20 are not materially misstated, by reference to market evidence relevant to the assets. — Challenging judgements and estimates related to the categorisation and basis of valuation of elements of the TECA development as they become complete. — Challenging the Council's assessment of the potential impact of Covid-19 on the carrying value of assets as at 31 March 2020. 	<p>We found the resulting valuation of council dwellings, other land and buildings, surplus assets and investment properties to be acceptable, with the exception of TECA (see below)</p> <p>Control design:</p> <p>We continue to recommend greater management consideration of complex accounting transactions in advance of the audit in the context of the above.</p> <p style="text-align: right;">2016-17 recommendation one (page 57)</p> <p>Assessing valuer's credentials</p> <p>We concluded that the Council's valuer is appropriately qualified, competent and experienced to prepare the Council's valuations.</p> <p>Assessing methodology choice and benchmarking assumptions:</p> <p>Significant elements of the TECA development were completed in Summer 2019 and became operational. In the draft financial statements, all completed assets were transferred to investment property and reflected at cost.</p> <p>We challenged management throughout the audit to set out the basis of these decisions and held a number of discussions including senior officers, Council and KPMG valuers.</p> <p>The Council's valuers have included a material uncertainty in their valuation reports. We required management to disclose this in their financial statements.</p> <p>On 17 June 2020, a provisionally agreed position was reached which required additional valuations to be prepared by the Council's valuer. These were received on 26 June 2020 and our consideration of them is not yet concluded.</p>

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p>Revaluation of council dwellings, other land and buildings, surplus assets and investment properties</p> <p>Continued.....</p> <p>The Marischal Square development was valued for the second time in 2018-19 and new leases have been signed with tenants in 2019-20, giving rise to potential change in the carrying value of this investment property (£55 million as at 31 March 2019).</p> <p>During 2019-20 The Events Centre Aberdeen ("TECA") construction was completed and the costs previously included in Assets Under Construction (£326 million as at 31 March 2019) and the additional costs in 2019-20 will have to be transferred to Investment Properties.</p> <p>This represents a Key Audit Matter in the audit opinion.</p>	<p>Continued.....</p> <p>Input assessment</p> <ul style="list-style-type: none"> Assessing the observable inputs used in the valuations by reference to supporting evidence. <p>Our sector expertise</p> <ul style="list-style-type: none"> Assessing, in light of our knowledge of the Group's assets and changes in market conditions, the assumptions used compared to our own expectations. <p>Assessing transparency</p> <ul style="list-style-type: none"> Considering the adequacy of the disclosures in respect of the sensitivity of the valuations to assumptions made by the Council's valuer, particularly with respect to the material uncertainty clause included in valuation certificates related to Covid-19. Considering the adequacy of the disclosures made in respect of significant judgements made by management in respect of the categorisation and basis of valuation of components of the TECA development as they complete. 	<p>At the time of drafting, and following audit feedback on an initial calculation, the Council has reassessed the detailed adjustments which are required to reflect updated categorisation and basis of valuation in the financial statements. This is complex and involved separation of the total project cost and land areas by individual asset.</p> <p>Similarly, KPMG review of the updated valuations, components, useful life and cost estimation is ongoing following receipt on 22 June 2020 and 26 June 2020.</p> <p>Adjusted audit difference (see page 47)</p> <p>The following separable identifiable assets have been determined, categorised and valued by the Council – representing significant judgements and estimates.</p> <ul style="list-style-type: none"> P&J Live (exhibition centre): specialised operational asset valued at depreciated replacement cost. Downward revaluation, reflected in other comprehensive expenditure, from £266.5 million to £246.0 million. Two hotels: investment properties valued at market value. Downward revaluation reflected in surplus/deficit on provision of services, from £84.5 million to £14 million. Energy Centre: investment property and reflected at cost in year one due to the unavailability of a reliable market value as operations commence and customer base grows (intended to be at market value in a future period). Carrying amount £39.0 million of which the majority relates to equipment. Associated development land which is marketed and subject to a commercial development agreement: investment property reflected at market value. Upward revaluation reflected in surplus/deficit on provision of services, from £3.5 million to £4.3 million. <p>As a consequence of the above, assets completed in the year at a cost of £393.7 million are now reflected at a cumulative amount of £318.7 million.</p> <p>Audit challenge also resulted in upward revision of the market value of the old exhibition centre site from £6.1 million to £10.9 million to reflect development land which had not been valued for inclusion in the draft financial statements</p>

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p>Revaluation of council dwellings, other land and buildings, surplus assets and investment properties</p> <p>Continued.....</p>	<p>Continued.....</p>	<p>Input assessment</p> <p>For each of the assets sampled, management supported the key inputs to the asset valuation.</p> <p>Our sector expertise</p> <p>Our internal valuation specialist challenged the Council's valuer in terms of assumptions and comparable evidence as set out opposite. Support for the assumptions used was provided, for each of the assets selected for testing. The Council's valuer also provided extensive evidence of recent market transactions and comparable sales.</p> <p>Assessing transparency</p> <p>We reviewed the additional disclosures in respect of the Council Valuers materiality uncertainty clauses, valuation sensitivity analysis in respect of estimates and significant judgement in classification and basis for valuation for completed elements of the TECA project.</p> <p>.</p>

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p>Retirement benefits</p> <p>The net pension liability (£309.3 million as at 31 March 2020), including assets of £1.32 billion) represents a material element of the Council's balance sheet. The Council is an admitted body of North East Scotland Pension Fund, which had its last triennial valuation completed as at 31 March 2017. The next triennial valuation will take place as at 31 March 2020, however this will not impact the Council contributions until the 2021-22 financial year.</p> <p>Small changes in the assumptions and estimates relating to discount rate, inflation rate, mortality/life expectancy and rate of increase in pensionable salaries which are used to value the pension obligation (before deducting scheme assets) would have a significant effect on the pension liability.</p> <p>The effect of these matters is that, as part of our risk assessment, we determined that the valuation of the pension benefit obligation has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the annual accounts as a whole, and possibly many times that amount.</p> <p>This represents a Key Audit Matter in the audit opinion.</p>	<p>Our audit approach included:</p> <p>Control design:</p> <ul style="list-style-type: none"> Testing the design and operating effectiveness of controls over the provision of membership information to the actuary to calculate the pension obligation. <p>Test of Details:</p> <ul style="list-style-type: none"> Test of detail of the year end cashflows, membership details, and asset rate of returns. <p>Benchmarking assumptions:</p> <ul style="list-style-type: none"> Challenging, with the support of our own actuarial specialists, the key assumptions used by the actuary (the discount rate, inflation rate and mortality/life expectancy) against externally derived data. Challenging the rate of increase in pensionable salaries assumption, by comparing it to other evidence such as business and transformation plans and our understanding of Government and staff expectations. <p>Assessing transparency:</p> <ul style="list-style-type: none"> Considering the adequacy of the disclosures in respect of the sensitivity of the deficit to the assumptions used by the actuary. 	<p><i>We are satisfied that the retirement benefit obligation:</i></p> <ul style="list-style-type: none"> <i>is correctly recognised on the balance sheet as at 31 March 2020;</i> <i>has been accounted for and disclosed correctly in line with IAS19 Retirement benefits; and</i> <i>assumptions used in calculating this estimate and management's judgements are appropriate, balanced and within a range which we consider to be acceptable.</i> <p>Control design:</p> <p>Results of testing of controls in respect of provision of information to the actuary were satisfactory.</p> <p>Test of Details:</p> <p>Results of test of details were satisfactory.</p> <p>Benchmarking assumptions:</p> <p>Guaranteed minimum pensions ('GMP') equalisation</p> <p>Following a UK High Court judgement on 26 October 2018, gender equalisation of GMP is required to remediate the unequal benefits and retirement ages for men and women from 1990.</p> <ul style="list-style-type: none"> The UK Government consultation on GMP ended in December 2018 and extended the interim solution already in place for GMP equalisation from 2016 for the period 2018-2021. The Council's actuaries have included the full effect of the interim indexation solution in the calculation of scheme liabilities during 2019-20. This has led to a past service cost of £4.4m we concur with this liability being included.

SIGNIFICANT RISK	OUR RESPONSE	AUDIT CONCLUSION
<p>Retirement benefits (continued)</p> <p>See previous page</p>	<p>See previous page</p>	<p>Continued...</p> <p>Benchmarking assumptions continued</p> <p>McCloud judgement</p> <p>On 20 December 2018 the Court of Appeal ruled that transitional arrangements offered to some public sector pension scheme members amounted to unlawful discrimination. This related to new schemes set up in 2015 which typically meant older workers could stay in the existing, more generous schemes, while younger workers had to transfer to the new schemes.</p> <ul style="list-style-type: none"> — This ruling potentially gives rise to additional liabilities for local government pension schemes. — The Council's actuary has included in their report this liability and this has led to a past service charge of £28.6m being recognised during 2019-20. We challenged this value and the approach, and an error was identified. The Council's Actuary revised their report and this past service cost was revised to £11.9m — We concur with this revised approach. <p>The Council updated the draft statements for the revised actuary reports.</p> <p>Audit Difference (page 47)</p> <p>Assessing transparency:</p> <p>The disclosures in the annual accounts are in line with the Code's requirements, including relevant sensitivity analysis.</p>

Other area of audit focus	OUR RESPONSE	AUDIT CONCLUSION
<p>Capital expenditure</p> <p>The Council has a five year £1 billion capital plan which is focused around the city centre masterplan. This includes a budget of £300 million for 2019-20. Key projects in progress in 2019-20 include the energy from Waste Plant, completion of TECA and the refurbishment of the Art Gallery.</p> <p>Due to the significance of this capital investment programme and complexity of some of the projects, we consider it to be an area of audit focus. This is in respect of ensuring that the classification of costs between operating and capital expenditure is appropriate and in respect of capturing all relevant costs and contributions. However it is not seen as a significant risk as the transactions although material in value are recorded at cost and do not include material estimation techniques such as Valuation.</p>	<p>Our procedures included:</p> <p>Control design:</p> <ul style="list-style-type: none"> — Testing the design and operating effectiveness of controls over the accounting for Capital projects and monitoring the spend. — Testing the design and operating effectiveness of controls in respect of the review of costs allocated to capital and revenue projects. <p>Control re-performance:</p> <ul style="list-style-type: none"> — Comparing the total capital expenditure reported in the financial statements with that reported in reports to those charged with governance. <p>Tests of detail:</p> <ul style="list-style-type: none"> — Use of substantive sampling methods to evaluate the appropriateness of capital or revenue accounting classification by reference to supporting documentation. — Assessing a sample of items allocated to revenue expenditure to determine whether they are correctly classified. <p>We continued to consider TECA as previously summarised and in respect of Wider Scope responsibilities.</p>	<p>Control design and re-performance:</p> <p>The controls tested were found to be effective.</p> <p>Tests of Detail:</p> <p>No exceptions were identified in the tests of detail, with supporting documentation available for each item sampled.</p> <p><i>We have concluded that the treatment of capital expenditure is satisfactory.</i></p>

ISA 260 requires us to report to those charged with governance our views about significant qualitative aspects of the Council's accounting practices, including accounting policies, accounting estimates and financial statement disclosures. We consider the accounting policies adopted by the Council to be appropriate. There are no significant accounting practices which depart from what is acceptable under IFRS or the CIPFA Code. We considered the level of prudence within key judgments in the 2019-20 financial statements and accounting estimates. We set out our view below:

Subjective areas	2018-19	2019-20	Commentary
Council tax bad debt provisions £39.2 million	3	3	Collection rates have remained stable year-on-year and there has been limited impact of Covid-19 to date. Recognising some moderate additional risk of non payment associated with Covid-19 the provision for recent (up to 365 days) debts has been increased from 44.5% to 51.5% (increasing the provision by approximately £0.6 million). We concur with the provisioning approach and we note that this is not a material area of judgement.
Pension assumptions Net liability: £309.3 million	3	2	For defined benefit obligations, the estimate is calculated under IAS 19 (as calculated by the Council's actuary, Mercers, using agreed financial assumptions). We found the assumptions and accounting for pensions to be appropriate. We consider that the discount rate used (2.4%) to be optimistic, the CPI inflation assumption (RPI less 1.2%) to be cautious, and mortality – future improvements (CMI 2018 projections model, 1.75%/ 1.5% long-term trend rate for males/females) to be cautious. Salary inflation assumptions are in line with Council expectations. We consider that the return on pension assets assumptions to be appropriate. Overall we consider pension assumptions to be balanced.
Council dwellings, other land and buildings, surplus assets, and investment property revaluations: £2,617 million	3	4	Our findings over the valuation of Council dwellings, other land and buildings, surplus assets, and investment properties are discussed on page ten to twelve. We did not identify any indications of management bias. We challenged management to consider the impact of Covid-19 on valuations prepared as at November 2019 and assets not revalued in the year. No adjustments were required on the basis of limited market evidence. A material uncertainty clause has been included by the Council's valuer in respect of certain asset categories (excluding social housing, TECA assets and Marischal Square), we have required the Council to disclose this along with sensitivity analysis in the financial statements Significant audit misstatements were adjusted related to the categorisation basis of valuation of TECA assets completed in the year.

Level of prudence



Going concern

Going concern means the ability of the Council to remain solvent for the twelve month period from the accounts being signed. Management considers it appropriate to continue to adopt the going concern assumption for the preparation of the annual accounts.

The Council had net assets of £1.21 billion (2018-19 £1.29 billion) as at the balance sheet date. Net assets decreased on 2018-19 by £0.73 million, reflecting the total comprehensive expenditure for the year.

During 2019-20, the Council set a net revenue expenditure budget of £526 million (being £452 million on the General Fund and £91 million on the Housing Revenue Account). The core outturn is a surplus of £1.3 million (being £0.8 million on the General Fund and £0.5 million on the Housing Revenue Account).

Over the past few years there has been managed reduction in the overall cost base and further efficiency savings are incorporated into budgets. In March 2020 the Council approved savings for 2020-21 of £37.9 million, across a wide range of the activities of the Council, in order to achieve a balanced budget. Delivery against the savings is being monitored on a regular basis and the Council has demonstrated the ability to deliver on savings targets in prior years.

In respect of the impact of Covid-19 the Council has reported to COSLA budget pressure of up to £32 million across the General fund, HRA and from potential financial exposure to Council ALEO's. This has been reported to the Urgent Business Committee in May 2020 along with a range of scenarios. It is well advanced in its consideration of the financial pressures and is progressing plans to address these with a further update presented to the June 2020 meeting of the Urgent Business Committee. In its paper, the Council notes a range of responses and mitigating actions including government intervention, mechanisms such as borrowing to fund revenue, grant funding, financial injections and controlling the revenue position (e.g. savings actions / stopping discretionary spend).

Further assessment of financial sustainability, which extends beyond going concern, is provided on page 31.

Practice Note 10 Audit of Financial Statements of Public Sector bodies explains that, *“The auditor should, in the first instance, review the management’s assessment of going concern and the adequacy of disclosures of the basis for preparing the financial statements. In the public sector, entities may have a deficit of income over expenditure or an excess of liabilities over assets. However, the operational existence of a public sector entity will not always cease, or its scale of operations be subject to a forced reduction, as a result of an inability to finance its operations or of net liabilities. The reasons for this are: local government entities are statutory bodies that are required to maintain delivery of functions essential to the local communities, are themselves revenue-raising bodies and have the possibility, on application, of recovering losses over a period.”* It furthers that cessation of an entity may arise e.g. if it is merged / functions are transferred but that only in the case of dissolution without continuation of the operations, would the going concern basis cease clearly to be appropriate.

Audit challenge and review activities included:

- Confirmed that COSLA return totals agree to amounts presented as Best Case in the Financial Resilience report to Urgent Business Committee May 2020.
- Attendance at and reviewed the minutes of the Urgent Business Committee May 2020 noting scrutiny and consideration by elected members.
- Discussion with finance officers to consider and challenge assumptions, in particular including ALEO support, mitigations (such as government funding), cash flow monitoring, borrowing and planned committee reporting.
- Consideration of controls in respect of management forecasts, budget monitoring and reporting.
- We challenged the income included in forecasts in respect of hotels, P&J Live and other major projects and understand these are predominantly reduced to non-operational levels in the 2020-21 forecast.
- We considered the impact of discussions between the Council and its ALEOs / group entities regarding Council support.
- Liaison with Audit Scotland regarding basis of preparation and audit opinions.

Conclusion

The Council has a strong net assets position and a significant value of available financial assets and uncommitted general reserves. It has put in place savings plans and prepared short, medium and long term financial forecasts. These are inherently dependant on a number of assumptions out with the Council's control although the Council is currently performing broadly in line with budget. Management has demonstrated strong leadership in taking action on overspends to ensure tight budgetary control.

It has acted early to assess the impact of Covid-19 and is proposing actions to return to a balanced budget with decisions being recommended to the UBC by the end of Q1. We have reviewed the Councils approach and undertaken challenge and assessment as set out on the previous page.

We have considered the requirements of the Code and Practice Note 10, together with the opinion of Audit Scotland in respect of local government bodies requirement to prepare financial statements on a going concern basis.

We required management to include additional disclosure in the Basis of preparation note to reflect the current Covid19 situation and impact on the going concern assertion.

In light of the above we are content that the going concern assumption is appropriate.

Management reporting in financial statements

REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
<p>Management commentary</p>	<p>The Local Authority Accounts (Scotland) Regulations 2014 require the inclusion of a management commentary within the annual accounts, similar to the Companies Act requirements for listed entity financial statements. The requirements are outlined in the Local Government finance circular 5/2015.</p> <p>We are required to read the management commentary and express an opinion as to whether it is consistent with the information provided in the annual accounts. We also review the contents of the management commentary against the guidance contained in the local government finance circular 5/2015.</p> <p>In Finance Circular 10-2020, Scottish Government varied the required content of the management commentary and clarified that local government bodies can vary their accounts timetable to revised (extended) deadlines. It provides specific expectations around inclusion of details of the impact of Covid-19 in the management commentary.</p>	<p>We are satisfied that the information contained within the management commentary is consistent with the annual accounts.</p> <p>We reviewed the contents of the management commentary against the guidance contained in the local government finance circular 5/2015 and, following some suggested enhancements are content with the proposed report.</p>
<p>Our view of Alternative Performance Measure (“APM”) presentation</p>	<p>As an EU Public Interest Entity (“EU-PIE”), we are required to provide a view on the APMs that the Council uses in its management commentary. APMs are those amounts presented which do not directly appear in the financial statements themselves.</p> <p>The local government finance circular 5/2015 provides clear guidance to councils on the type of information to be included within the management commentary. Furthermore, the CIPFA Code requires an expenditure and financing analysis is presented within the financial statements, providing a reconciliation from the Council’s internal management reporting to the statutory position.</p> <p>The key performance measure which users of the accounts consider is the achievement of over or under spends against budget. An appropriate reconciliation from the underspend against budget (including HRA) to the statutory position presented in the comprehensive income and expenditure account is provided in the management commentary. This reconciliation does not give undue prominence to an adjusted measure.</p>	<p>We consider the presentation of alternative performance measures in the management commentary to be appropriate in the context of the Council’s accounts.</p>

Management reporting in financial statements (continued)

REPORT	SUMMARY OBSERVATIONS	AUDIT CONCLUSION
<p>Remuneration report</p>	<p>The remuneration report was included within the unaudited annual accounts and supporting reports and working papers were provided.</p>	<p>We are satisfied that the information contained within the remuneration report is consistent with the underlying records and the annual accounts and all required disclosures have been made.</p> <p>Our independent auditor's report confirms that the part of the remuneration report subject to audit has been properly prepared.</p>
<p>Annual governance statement</p>	<p>The statement for 2019-20 outlines the corporate governance and risk management arrangements in operation in the financial year. It provides detail on the Council's governance framework, review of effectiveness, continuous improvement agenda and group entities and analyses the efficiency and effectiveness of these elements of the framework.</p> <p>We previously conducted a specific review of the content and structure of the statement and provided feedback to management in 2018-19 which was reflected. In 2019-20 we have specifically considered the updates included in respect of changes to governance arrangements regarding Covid-19 and risks and uncertainties.</p>	<p>We consider the governance framework and annual governance statement to be appropriate for the Council and that it is in accordance with guidance and reflects our understanding of the Council.</p>

Our audit appointment of the Council extends to the audit of the Aberdeen City Council Charitable Trusts and Aberdeen City Integration Joint Board. Appendix seven sets out the group structure. The table below sets out the key audit findings from these entities and any significant matters discussed with the component auditor. There are no findings to report in relation to other group entities. **Consolidation audit is outstanding at the time of drafting.**

ENTITY	WORK PERFORMED	AUDIT CONCLUSION
Charitable Trusts	We assessed materiality based on our knowledge and understanding of the charities' risk profile and annual accounts balances. Materiality was determined at 2.5% of total assets. We considered and confirm our independence as auditor and our quality procedures, together with the objectivity of the audit director and audit staff.	We expect to issue an unqualified audit opinion on the charitable trusts.
Common Good	Aberdeen City Council Common Good does not prepare separate financial statements, and is incorporated as disclosure notes within the Council's financial statements. Common Good holds investment properties as well as other assets.	The Common Good amounts are included within the Group financial statements, for which we issued an unqualified opinion.
Integration Joint Board ('IJB')	A separate annual audit report was presented to the Audit and Performance Systems committee of the Aberdeen City Integration Joint Board on 9 June 2020. No significant exceptions were identified during the audit.	We expect to issued an unqualified audit opinion for the IJB.

New accounting standards for 2019-20

The CIPFA code was revised for 2019-20 to take into account IFRS 16 Leases. This standard will bring a significant number of operating leases onto the balance sheet unless they are low value or have less than a year to run.

Due to the Covid19 lockdown it was confirmed by CIPFA/LASAAC to delay the adoption of IFRS 16 leases standard for another 12 months and is now expected to be adopted in 2020-21.

The Council had carried out work on the identification of these leases and were assessing the impact for the 2019-20 financial statements.

There are a small number of other updates to existing standards for clarity and disclosure requirements.

The Council have adopted all the relevant updates in the Financial Statements.

Future accounting and audit developments

The most significant change in the 2020-21 CIPFA Code is now in respect of the adoption of IFRS 16 *Leases* which was deferred.

This standard will bring a significant number of operating leases onto the balance sheet unless they are low value or have less than a year to run. CIPFA/LASAAC will revisit accounting for PFI liabilities which are currently under finance lease accounting rules of IAS 17, which is being replaced by the new standard. The Council has already done a significant amount of the preparation work for the adoption of the standard is well placed to make the required amendments to the Financial Statements.

Audit dimensions introduction

The Code sets out four audit dimensions which, alongside Best Value, set a common framework for all the audit work conducted for the Controller of Audit and for the Accounts Commission. The dimensions are: financial management; financial sustainability; governance and transparency; and value for money.

It remains the responsibility of the audited body to ensure that it makes proper arrangements across each of these audit dimensions. These arrangements should be appropriate to the nature of the audited body and the services and functions that it has been created to deliver. We review and come to a conclusion on these arrangements.

During our work on the audit dimensions we considered work carried out by internal audit and other scrutiny bodies to ensure our work meets the proportionate and integrated principles contained within the Code.

All appointed auditors are also required to consider areas of focus identified by Audit Scotland, we include our view on each area as within the relevant wider scope section.

Best Value

The Accounts Commission agreed the overall framework for a new approach to auditing best value in June 2016. Best Value is assessed over the five year audit appointment, as part of the annual audit work. There are seven areas considered over the five years. In addition a best value assurance report (“BVAR”) for each council will be considered by the Accounts Commission at least once in the five year period. It is the intention of Audit Scotland and the Accounts Commission to extend audit appointments by one year which may have an impact on the timing the Council’s Best Value review which was scheduled to be conducted in autumn/winter 2020 and report in Summer 2021. The Best Value audit work integrated into our audit in 2019-20 focused on one of the seven areas: Equal Opportunities. The findings of this work are reported on pages 38 to 41.

Strategic Audit Priorities

The Accounts Commission agreed five strategic audit priorities:

- the clarity of Council priorities and quality of long-term planning to achieve these;
- how effectively councils are evaluating and implementing options for significant changes in delivering services;
- how effectively councils are ensuring that members and officers have the right knowledge, skills and time to lead and manage delivery of council priorities;
- how effectively councils are involving citizens in decisions about services; and
- the quality of council public performance reporting to help citizens gauge improvements.

We consider the strategic audit priorities when performing the wider scope work over the five year appointment.

Our approach

We performed a range of procedures to inform our work:

- interviews with senior officers, including the Chief Executive;
- discussion with officers throughout the Council;
- review of various committee papers and reports;
- attending committee meetings; and
- consideration of Audit Scotland guidance to draw conclusions on good practice.

We use icons to highlight specific matters of note throughout this report.

Key:  Best practice  Area of ongoing development

Financial management

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

2019-20 financial performance

The Comprehensive Income and Expenditure Statement shows a deficit on the provision of services of £156.6 million for the year to 31 March 2020, of which £125 million relates to the General Fund. The deficit includes various accounting adjustments as required by the CIPFA code, such as in respect of actuarial movements and revaluation of property, plant and equipment. Excluding these adjustments and taking account of reserve movements, the Council reported a surplus of £1.3 million, being £0.2 million in respect of the General Fund, £0.5 million in respect of the Housing Revenue Account and £0.6 other usable reserves.

General Fund

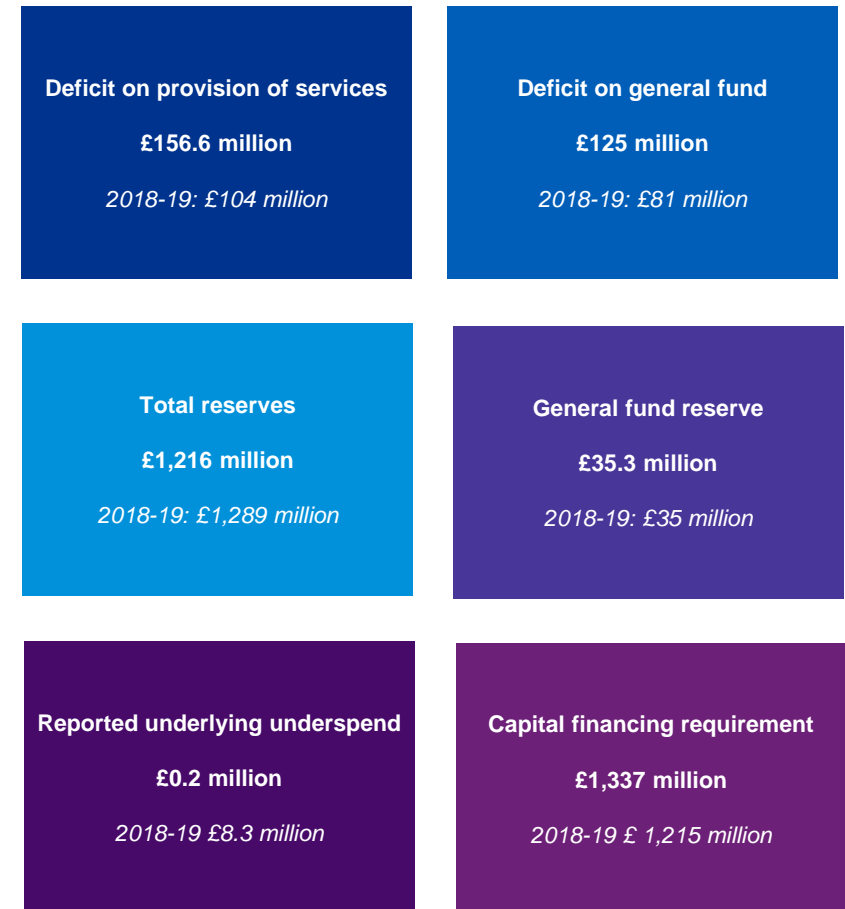
A balanced budget was approved at the start of the year, incorporating a final saving requirement of £41.2 million. The £0.2 million General Fund underspend represents around 0.05% of the net services expenditure, although it is the net result of overspends and underspends within the Council's functions as well as re-profiling of Loans Fund charges. The largest value variances were:

- Commissioning overspend (£2 million), shared services additional savings not achieved and management decisions to minimise budget adjustments with savings targets not distributed to service budgets.
- Miscellaneous Services saving (£3.6m), reflecting the savings due to the changes in the loans fund regulations and lower debt costs.
- Council costs overspend (£1.7 million), increase in bad debt provision due to estimation of the impact of Covid19.

The largest element of underspend is in relation to the Council's review of Loans Fund charges as permitted by the Local Authority (Capital Financing and Accounting) (Scotland) Regulations 2016. The Council changed the profiling of Loans Fund charges for the repayment of its outstanding debt liability for debts issued before 1 April 2016. This gave rise to a £4.3 million gain relative to the budget.

The 2019-20 budget also included contingencies, in recognition of the uncertain nature of needs and pressures within any local authority, and these enabled the Council to deliver a broadly balanced outturn overall despite the impact of Covid19 closedown in March which impacted a short period before 31 March 2020.

Financial headlines



(Source: audited annual accounts)

Financial management (continued)

2019-20 financial performance (continued)

Housing Revenue Account ('HRA')

The Council is required by legislation to maintain a separate HRA and to ensure that rents are set to cover the costs of its social housing provision. Rent levels are set in order to achieve a breakeven position based on forecast expenditure.

The £0.5 million underspend on the provision of services reported for 2019-20, reflects a £3.5 million surplus from Loans Fund charges profiling (see page 20) and a surplus from the extension of useful economic lives of housing assets allowing the HRA to reduce borrowing for capital, by meeting the cost of capital from current revenue.

Closing HRA reserves were £12.3 million for use in future years.

Financial reporting



Quarterly financial reporting is provided to the City Growth and Resources Committee ('CGRC'), comprising a full set of financial statements with management commentary and additional notes to explain the financial position. Further detailed analysis of the results are provided in appendices, including in respect of HRA, Common Good Fund and the Capital budget. This is good governance in view of the listed debt, and remains leading practice in a local authority context.

The forecast outturn for the 2019-20 £453 million general fund budget as per the quarterly financial reporting is set out below, with the full year forecast as reported at each quarter presented to show the changes in expectations over the year.

Forecast outturn (£000)	Q1	Q2	Q3	Q4
(Underspend) / overspend	B/E	B/E	B/E	(965)



Over the course of 2019-20 the reporting was that a balanced position was being projected. The small surplus was supported by the use of £1.6m of reserves to support the expenditure during the year. This included the impact of Covid19 in March 2020.

The delivery of a small surplus demonstrates the strong management of the Council's finances, noting that Loans Fund charge reprofiling supported the outturn.

Capital budget

There was a significant shortfall in capital expenditure relative to the £259 million budget, with £157 million invested in capital projects. The largest spend being in respect of TECA, where £81 million was incurred. The shortfall is in part due to re-profiling in respect of four proposed new primary schools, delays with the Union Terrace Gardens project and known delays in settling land claims for the AWPR.

During the year The Event Complex Aberdeen (TECA) opened in Summer 2019 alongside the two Hotels and Energy Centre.

In November 2019 the Aberdeen Art Gallery reopened following extensive refurbishment.

The joint Energy and Waste facility began construction in August 2019 and is ongoing into 2020/21. In addition preliminary works have taken place on the four proposed new primary schools

Scrutiny and monitoring of the overall capital plan delivery is the responsibility of the Capital Programme Committee.

2021-22 budget proposals

The Council sets five budgets on an annual basis: General Fund; HRA; Capital; Common Good; and Pension Fund. Throughout July to November there is an iterative process of budget development, of transformation proposals and reporting through Corporate Management Team ("CMT") and Extended CMT ("ECMT"), concluding in November.

Officer proposals are submitted during that iterative process, for costing or consideration. Alternative proposals are then submitted by members or political groups, for consideration in advance of the meeting.

On 3 March 2020 the Council approved a detailed balanced revenue budget for 2020-21 and a five year high-level budget to 2024-25. The Council also approved a five year capital budget of £424 million, in addition to a housing investment program over the same period of £282 million.

We consider that the budgeting process is robust, and is supported by regular monitoring as noted opposite. The impact of Covid-19 is considered overleaf.

2021-22 budget proposals

Covid19

On March 23 2020 the UK Government put the Country in lockdown to fight the emerging Covid-19 Pandemic. The impact of this has led to a “shutdown” of virtually all economic activity within the UK and large scale government financial intervention during these unprecedented times to provide financial support to private sector businesses through a host of measures, some of which local government have been asked to administer.

On 6 May 2020 an report to the Urgent Business Committee (“UBC”) was provided which was the Council’s latest estimation of the financial impact that the lockdown was having and the various scenarios should the lockdown continue for prolonged period of time.

The position that the Council reported on 6 May 2020 was that the best case position, assuming no intervention or government support, as submitted to COSLA. It is outlined in the table below:

Estimated impact of	General Fund £000’s	HRA £000’s	External £000’s	Total £000’s
Mobilisation	5,629	5,714	0	11,343
Lost Income	30,152	0	8,000	38,152
Cost Reduction	(8,375)	(4,500)	(4,000)	(16,875)
Net Impact	27,406	1,214	4,000	32,620

Source: 6 May 2020 report to UBC

Note: The above values do not include the support announced by the Scottish Government for the Covid19 response.

Using the above values as the base for the estimates the Council then stretched these to understand a number of scenarios shown as best case, mid case, and worse case.

Estimated impact of	General Fund £m’s	HRA £m’s	External £m’s	Total £m’s
Best Case	27-28	1-2	3-5	31-35
Mid Case	52-55	2-3	8-10	62-68
Worse Case	80-90	4-5	14-18	98-113

Source: 6 May.2020 report to UBC

The Council continues to assess the financial impact of Covid19 in the short and medium term.

The statutory position remains for the Council to deliver a balanced budget. Even with government support, corrective action needs to be taken to continue to deliver this position and ensure financial sustainability.

Options are intended to be presented to elected members outlining actions that can be taken to ensure the Council maintains its balanced financial position for the year. At the time of drafting only services deemed “critical” are operating while other areas continue some level of operation through home working. In certain areas, service provision has been temporarily suspended (for example, school closures, libraries, etc.).

The overall conclusion on the 2020-21 and medium term is that the Council had set a balanced budget with a savings target that historically the Council has achieved. Since the Covid-19 lockdown these financial plans and operational activities are subject to risk and uncertainty.

We consider that the Council has, in line with its sound financial management practices, started to understand the impact and this will continue throughout the year however it remains a significant risk in respect of financial management. It is important that the Council’s UBC, or other committees have sufficient, appropriate financial expertise and operational understanding in order to critically assess and challenge financial resilience reports and plans.

A further update is being provided to UBC on 30 June 2020.

Financial management (continued)

Accounts and audit process

2019-20 was the third year of the accelerated accounts timetable, with draft annual accounts issued to the UBC on 6 May 2020, and the audit commenced on the same day. In order to facilitate approval of the annual accounts by the end of June 2020, the subsidiary and associate entities also delivered to an accelerated timetable. The statutory deadline for signed annual accounts was 30 September 2020 however due to Covid-19 the statutory deadline for signed annual accounts has been extended to 30 November 2020.



The UBC meeting at which the unaudited annual accounts were considered was on 6 May 2020, compared to 30 April 2019 for the 2018-19 annual accounts. However with the impact of Covid19 lockdown to achieve this timetable is an outstanding effort by the Finance team. The draft presented to the UBC committee on 6 May 2020 was substantially complete, with some minor notes required amendment after the UBC May meeting.



The Council and audit team have continued to work to deliver the work to the original deadlines however it is recognised by audit and financial regulators, including Audit Scotland, that additional time may be required and should be taken by entities and auditors in order to ensure the quality of financial statements and audit. This relates to both the challenge of auditing and working remotely and additional audit considerations which may be required in respect of the potential impact of Covid-19.

The audit of the Council group is significantly progressed and in a number of areas, further advanced at this stage than in previous years which is exemplary in the current environment. We continue to recommend that management give greater consideration to complex accounting transactions, particularly associated with estimates and judgements, in advance of the audit and preparation of unaudited financial statements.

High quality working papers were provided at the start of the audit fieldwork and management responded effectively to our queries.

Three significant issues were identified during the year:

- Impact of Covid-19 and correctly accounting for McCloud judgement as part of the net Defined Benefit Pension Liabilities;
- Categorisation and basis of valuation of completed elements of the TECA project;
- Impact of Covid-19 on financial management and sustainability.

We have also identified that for two capital projects the accrual of works completed to the year end was not complete, and payments made in April for works done in March was not accrued at year end

2019-20 Recommendation 2 (page 49)

Categorisation and basis of valuation of completed elements of the TECA project

We have summarised our conclusions on pages nine and ten. Management should continue to consider its ability to obtain a reliable market value of the Energy Centre (investment property) and P&J Live (operational land and buildings) as they become fully operational. This will be required in respect of the Energy Centre in 2020-21.

There was no documented consideration of the categorisation of assets in advance of preparation of the unaudited financial statements. An iterative process occurred during the audit which required numerous discussions with senior officers to appropriately consider accounting standards and the underlying business rationale and case surrounding the development.

Proposed audit adjustments are not confirmed at the time of drafting however management have proposed a split of AUC in line with the latest valuation report.

Impact of Covid19 on the net Defined Benefit Liabilities


The pension scheme actuaries prepared disclosures based on estimated assumptions for the unaudited annual accounts. However due to the impact of Covid19 on the value of the Pension Assets at 31.3.2020 (material fall in value) the original assumptions and estimates were updated during the audit to reflect March market data. During the audit of the revised numbers a material error was identified in the calculation of the impact of the McCloud ruling on the defined benefit obligation, this required a further update by the Actuary.

Adjusted Audit Difference (see page 47)

We are comfortable with the revised Net Defined Benefit Liabilities and disclosure notes.



Accounts and audit process

 A key improvement opportunity relates to the robustness of management consideration of complex accounting transactions, specifically related to accounting judgements and estimates.

In 2019-20 material audit misstatements were identified in the categorisation and valuation the completed components of the TECA project. In 2018-19 this related to the initial recognition of Lochside Academy, and in 2017-18 the treatment of Marischal Square investment properties.

2016-17 Recommendation one (page 57)

These non routine transactions apart, we consider that the Council performed exceptionally well to achieve the June 2020 audit annual accounts timetable. There is a continued high level of oversight and review which we have reflected as increased in 2019-20.

We set out opposite our qualitative assessment of the readiness for the audit.

Bond accounting

We reviewed the impact of adjustments on the accrual of interest calculated as at 31 March 2020 and carrying amount of the Bond this identified a carrying value error of £3.6m at 31 March 2020

Unadjusted audit difference (see page 49)

Readiness overview	2018-19	2019-20
Preparation and planning	H	H
Production of accounts	H	H
Oversight and review	M	H
Significant judgements	M	L
Supporting information	H	H

*KPMG qualitative assessment:
H/M/L – High/medium/low level of preparation, accuracy and detail*

Internal control

We consider that the Council has a generally robust control environment. We tested the operating effective controls within certain financial processes, where reliance upon them enabled an efficient testing approach. No exceptions were identified from the testing and the controls tested were:

- Budget monitoring.
- Bank reconciliations.
- Procurement: contract awards.
- Capitalisation of expenditure.
- Loans ledger reconciliation.
- HRA stock reconciliation.
- Council tax assessor report reconciliation
- Council tax banding rate reconciliation.

We noted in the prior year audit that although the Council demonstrates a good level of control through general IT controls, we were unable to place reliance on these controls in the audit. The primary reason for this was a lack of system logging and monitoring in place for IT privileged users. We did not plan to rely on these controls for the 2019-20 audit, given the work ongoing to implement the prior year recommendations.

Prior year recommendations continue to be implemented. In addition new recommendations have been raised. The current status and action plan is shown on page 51 onwards.

Status	Grade one	Grade two	Grade three
Implemented	-	2	3
In-progress/overdue	2	2	
	2	4	3

EU withdrawal

The Bill covering the UK's withdrawal from the European Union was passed in January 2020, effective 31 January 2020. There is now a transition period in place until 31 December 2020 which requires ongoing consideration of the impact on the Council.

EU Exit remains on the Council's corporate risk register. This is reviewed monthly by the Council's ECMT and CMT. Arrangements to closely monitor the risk of EU Exit to the Council are likely to re-escalate. The arrangements put in place will reflect learning from the Council's response to Covid-19. The Council's preparations for EU Exit will align to and complement the Grampian Local Resilience Partnership's preparations for EU Exit.



Audit Scotland Matter of Focus: Fraud and Corruption in Procurement

The Council has put in place a number of policies and arrangements to create an anti fraud and corruption culture. These include:

- Comprehensive anti fraud policies;
- The scheme of Governance, incorporating the Financial Regulations;
- Code of Conduct for officers and members
- Money Laundering policy; and
- Anti Bribery and Corruption policy

To supplement the policies and arrangements the Council also carry out proactive activities to supplement the understanding and effectiveness of the policies these include:

- Anti fraud and procurement training;
- Register of interests, gifts and hospitality;
- Comprehensive risk management processes including specific risk registers for all significant procurement projects;
- Confidential reporting arrangements eg whistleblower, for both staff and members of the public;
- Range of proactive fraud investigation procedures, including Corporate investigations assurance handbook; and
- Annual reporting of fraud prevention activity.

The Council have included within the Covid19 response plan a section on fraud and corruption to highlight the increased risk during the pandemic

ACC website and People Anytime contains information on Fraud – in addition there are other links that point people to the online reporting tool - fraud referrals can be made online by staff and customers

Audit Scotland Matter of Focus: Fraud and Corruption in Procurement (cont)

The Council have identified areas in which it can improve in relation to Fraud and Corruption in procurement as part of their continuous improvement culture, these include:

- Oil fraud prevent course updated on the Moodle platform;
- Ensuring that all procurement category managers are fully up to date with current fraud training;
- Increase the interaction between the anti fraud and corruption officers and the procurement managers to share experience and best practice;
- Ensure that the Annual Governance statement fully reflects the Anti fraud and corruption activity in procurement.

Our view – financial management

We consider that the approach to financial management, including budget setting and monitoring is appropriate with clear supporting governance arrangements. The Council demonstrates advanced practice, in a local authority context, through quarterly financial reporting. The controls tested for the purposes of forming an opinion on the annual accounts were found to be effective.

The Council has adequate arrangements in place, designed to reduce fraud and corruption in procurement. The identified areas to improve will further improve these arrangements.

Robust financial management, scrutiny and challenge is increasingly important in the context of Covid-19 and the Council has begun to demonstrate strong financial management arrangement for 2020-21.

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.

Audit Scotland’s *Local Government in Scotland: Financial Overview 2017-18* report highlighted that councils face an increasingly complex range of challenges and continuing pressure on finances. Funding gaps across councils in 2018-19 totalled £0.3 billion, with Scottish Government revenue funding increasing by only 0.2% in real terms and demand growing. Funding gaps are expected to increase over subsequent years and most councils have a transformation programme underway.

The Council’s Target Operating Model (“TOM”) was designed in recognition of the need for financial restraint, as well as the growing demand pressures and changing customer expectations.

Target Operating Model

The TOM was approved by the Council on 23 August 2017 and represented a significant redesign in the operating model of the Council. It puts delivery of the outcomes within the Local Outcome Improvement Plan (‘LOIP’) at its core.

Following the introduction of a governance structure to support delivery of the TOM, the Council approved a final organisational structure in March 2020 including the alignment of Business Intelligence & Performance Management to Customer, and of Governance, Strategic Place Planning and City Growth to Commissioning.

Implementation of the effective redesign of services and a move to a commissioning-led approach, including the digital strategy, is key in the delivery of the required savings needed to maintain financial sustainability over the short to medium term. The challenge of continuing to deliver this ambition is increased in the context of Covid-19.

Annual budget presentation

The annual budget was approved by Council on 3 March 2020. The budget report set out the general fund revenue and capital budgets for 2020-21, together with the general fund revenue budget for 2021-22 to 2022-25. The revenue budget showed the need to make savings in 2020-21 of £37.9 million. The savings were identified within the report, being a combination of income raising, cost saving and redesign.

General Fund revenue budget and benefits realisation

The prior year (March 2019) General Fund revenue budget identified the need to deliver savings of £41.2 million in 2019-20 and the medium term outlook (2019-20 to 2022-23) demonstrated the ongoing need to deliver recurring savings across the Council. By 2022-23 the value of recurring savings required was forecast as £100.9 million. The Council reports a 2018-19 general fund surplus of £0.5 million, having delivered on the saving requirements.

When preparing the March 2020 budget report, the Council were doing this with uncertainty in respect of the fact that the Scottish Government budgets were not agreed due to the December UK Elections and the delay this has caused. So for 2020/21 a one year settlement was provided on 6 February 2020, which indicated increased funding but also increased commitments and has been assessed as a 1% real time reduction on core funding. Together with the 2020-21 savings need of £37.9 million, the medium term financial outlook described in the report was consistent with previous years, that a significant level of recurring savings will continue to be needed. The total value required to 2024-25 is forecast as £171.6 million. If no action were taken by the Council then useable reserves of £548 million would be required to support current services, which is neither sustainable nor available.

Deficits are forecast for each of the next five years, before further savings plans:

General Fund revenue budget	2020-21 £000	2021-22 £000	2022-23 £000	2023-24 £000	2024-25 £000
Net service expenditure	489,692	527,207	560,481	5586,420	611,456
Funding	(451,794)	(447,190)	(445,262)	(442,562)	(439,836)
Deficit	37,898	80,017	115,219	143,858	171,619

(Source: 3 March 2020 – Council report)

At the time of the budget setting report there was an agreed pay settlement for 2020-21 of 3% included within the forecasts.

Savings plans to deliver the 2019-20 balanced budget.

It is a statutory requirement to set an annual balanced budget. To achieve this a detailed savings plan was approved which identified £37.9 million of forecast savings. This included recurring items to be delivered through service redesign and a reduction in in-year spending (£29.2 million), increase in Core Funding from Scottish Government (£3.3 million informed 27.2.2020) increases in fees and charges (£0.4 million), a 4% increase in Council Tax (£4.9 million).

The Council is transparent about the level of savings required in 2020-21 and over the medium term. Savings are required from transformation of the workforce and effective use of digital technology underpinned by services redesign. A Transformation Fund of £3.4 million is held as at 31 March 2020, to be utilised to make recurring savings through delivery of the Being Digital Strategy.

Progress against the delivery of the savings plan will be reported at the end of quarter one and work to assess and forecast the delivery of change, savings and / or income is in progress to meet the reporting deadlines set by the Council. We note that the Council has identified the individual elements of the £37.9 million and does not have a significant unidentified savings target.

Use of reserves

The Council continued to invest its reserves in the future of the organisation during 2019-20, including £2.2 million in respect of empty homes, and £1.4m support for external bodies.

As at 31 March 2020 the Council had uncommitted general fund reserves of £12.0 million which equates to 2.2% of Net Cost of Services of £542 million (1.9% as at 31 March 2019). These reserves are to support the delivery of services in the case of unexpected issues, and a reserves strategy is in place.

We consider that this level of reserves is reasonable for a Council of the size of Aberdeen City Council, however the risk for the Council is the non-delivery of savings which would impact on these reserves, particularly associated with the additional impact of Covid-19.

General Fund Reserves	31 March 2019 £000	Increase / (utilisation) £000	31 March 2020 £000
Transformation Fund	7,003	(3,548)	3,455
Second/Long Term Empty Homes	10,464	2,272	12,736
Other Earmarked Reserves	7,249	(50)	7,199
Uncommitted General Fund Reserve	10,338	1,662	12,000
Total General Fund Reserves	35,054	336	35,390

Covid19

Subsequent to setting the 2020-21 budget and medium term framework the UK entered lockdown associated with Covid-19 and the Council has begun assessment of the impact on the 2020-21 forecast.

The potential impact as assessed by the Council to date is summarised on page 26 . The Council has begun to understand the impact on the medium term financial planning.

Covid19

Subsequent to setting the 2020-21 budget and medium term framework the UK entered lockdown associated with Covid-19 and the Council has begun assessment of the impact on the 2020-21 forecast.

The potential impact as assessed by the Council to date is summarised on page 26. Audit challenge and consideration of revised financial plans is summarised on page 17.

The Council has detailed a critical path to CMT on 23 April 2020, which sets out the process planned to consider actions for 21/22 and 22/23 in respect of required service redesign following the impact of Covid-19. It includes a number of tools, templates and information sources for those responsible to use. A detailed timeline and lead officers have been identified.

The Council has significant long term borrowing associated with major capital projects, a number of which are on a commercial basis involving rent, events and hotel income. Management has assumed limited or substantially reduced income from these ventures in revised 2020-21 forecasts but they will require continued monitoring, specifically income generation compared to original business plans and the impact of any renegotiation of terms with development / operating partners.

We consider that the legal agreements and basis of arrangements with such commercial parties reviewed as part of the audit generally have suitable clauses which aim to minimise the financial risk to the Council which is good practice. They also often incentivise partners to seek to perform well and increase the return earned by the Council. However, in the current environment there is a risk that clauses related to force majeure / unforeseen events seek to be invoked by third parties which could expose the Council to increased financial or reputational risk.

An assessment of these commercial arrangements, the impact of Covid-19 and summary of potential risk and discussions with third parties should be prepared and considered by an appropriate committee.

2019-20 Recommendation two (page 50)

Cash and Short Term Investments (Liquidity)

Liquidity	31 March 2019 £000	31 March 2020 £000	Movement £000
Cash and cash equivalents	70,520	101,542	31,022
Short term investments	45,213	50,454	5,241
Short term borrowing	(197,228)	(213,138)	(15,910)
Current liquidity	(81,495)	(61,142)	20,353

The Treasury Management Strategy states that investment priorities are security of capital and the liquidity of investments. Liquidity is a key measure of the Council's ability to meet its liabilities as they fall due. The Council's current asset/liability ratio is now 0.73:1. (0.70:1 in 2018-19), similar to the level before the bond was issued for capital investment in the City.

Borrowing

Total borrowing as at 31 March 2020 was £141.7 million greater than as at 31 March 2019, with overall borrowing being £1,235 million. The increase in borrowing is primarily funding investment in capital and transformation as noted previously. Investment in Capital in the City was £206 million in 2019-20.

In respect of the £61.1 million negative liquidity as at 31 March 2020 (£81.5m 31.March 2019), we note that the Council has cashflow forecasts that show an increase in the long term borrowing over the year which will bring the current liquidity to a positive position.

As the borrowing increases, the pressures on the revenue budget for capital financing costs increases, being 7.7% of income by 2023 (5.3% in 2019-20). The Council has identified that this level is not sustainable and increasing borrowing beyond the planning horizon would impact on services. The general fund revenue budget forecasts over the medium term show that borrowing is expected to peak in 2022-23 and fall in the period 2023-25

The Council monitors its financial position on a routine basis and is borrowing in line with its financial plans. We note that the Council's credit rating was rated by Moody's as Aa3 with a negative outlook in December 2019, with recognition of the Council's strong financial management detailed within Moody's assessment. The negative outlook is in line with the negative outlook on the UK Sovereign. The report also highlights challenges around the ambitious savings plans and key project risks associated with the development of the TECA complex. We have reflected associated points on the previous page.

Prudential Code

The key objectives of the Prudential Code are to ensure that the Council's capital programme is affordable, prudent and sustainable, and that treasury management decisions are taken in line with good professional practice. Annually the Council has to set out its prudential indicators to provide a framework to work within to ensure that Council does not breach its prudential indicators as borrowing increases to fund capital investment.

The table opposite sets out the forecast prudential indicator.

Prudential indicators	2019-20 £m	2020-21 £m	2021-22 £m	2022-23 £m	2023-24 £m	2024-25 £m
Capital Financing Requirement	1,338	1,484	1,621	1,643	1,639	1,630
Operational Boundary for External Debt	1,698	1,815	1,966	1,990	1,985	1,976
Gross Borrowing	1,169	1,322	1,432	1,574	1,601	1,603
Gap	529	493	534	416	384	373

Our view – financial sustainability

A clear assessment of the 2020-21 savings needs has been identified and reported to Council. Covid-19 has introduced additional savings requirements for 2020-21 to enable a balanced budget to be achieved which management are assessing.

There remains a residual risk that in the medium to long term, transformation does not deliver the benefits and savings expected, or does not deliver them at the pace required to deliver a balanced budget without impacting services. This is further risk and uncertainty of the longer term impact of the economic fallout of the Covid-19 lockdown and impact on cash flow. Management have begun to consider these but not yet reported to committee or subject to scrutiny.

We consider that the Council is financial sustainable in the short term, with well monitored plans to ensure longer time financial balance and has begun appropriate consideration of Covid-19, which remains a risk.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making, and transparent reporting of financial performance.

Governance prior to Covid-19

The Council continues to enhance and refine its governance arrangements, including significant revision from March 2020 as a result of Covid-19.



In February 2020 CIPFA carried out an Advance review of Governance and in the report concluded that the Council be nominated for the Governance Mark of Excellence, having being assessed as fully meeting all the criteria for all seven of the criteria. This award was subsequently awarded to the Council.

In 2017-18 the Council made substantial changes to its governance arrangements following a wide ranging governance review. The changes support the delivery of the four phases of the transformation and the key achievements noted in the prior year Annual Audit Report were the approval of: a Scheme of Governance; a Bond Governance Protocol; a Risk Management Framework; and an ALEO Assurance Framework. It has continued to regularly self assess governance arrangements and revise these where improvement opportunities are identified. It takes on board feedback from scrutiny bodies, elected members and officers to inform revisions which is good practice.

The ALEO Assurance Hub reported to the Audit, Risk and Scrutiny Committee in June and December 2019 on the level of assurance they had received from each ALEO and advising on the level of risk to the Council. There was also a review of ALEO Service Level Agreements which were modified in respect of information sharing to support assurance. ALEOs also presented an annual report to the Strategic Commissioning Committee in respect of their contribution to the Council and the city's outcomes.

The Scheme of Governance that brings together the Council's constitutional documents is reviewed annually and following the introduction of a governance structure to support delivery of the TOM, the Council approved a final organisational structure in March 2020.

Covid19 and Governance

In March 2020, the UK went into 'lockdown'. The Council put in place an emergency response structure in order to manage the effects of 'lockdown' and the Covid-19 Pandemic.

Committee Structures

The Council's formal response structures were established on 16 March 2020. The structures reflected the Generic Emergency Plan which was approved by Council in 2019.

Group leaders were informed of the response structures informally and at a meeting of the Urgent Business Committee (UBC) which took place on 20 March 2020. The Committee agreed a number of decisions to facilitate decision-making in light of the Covid-19 pandemic and UK and Scottish Government advice for people to restrict social contact. The changes included:-

- with exceptions, cancelling Full Council, Committee and Sub-Committee meetings between 23 March 2020 and 21 August 2020;
- revising the membership of the Urgent Business Committee to five members;
- permitting participation in Council meetings from 'remote' locations; and
- updating the powers delegated to officers.

Control Environment:

A covid19 control environment risk assessment and gap analysis and Covid19 specific risk registers were created to help manage and minimise specific Covid19 risks in the short term.



Lessons learnt:

The corporate management team commissioned a review of the current arrangements on 21 May 2020 to understand lessons learnt. This review was split:

- Stage 1 (rescue)
- Stage 2 (transition)
- Stage 3 (long term recovery)

Stage 1 is seen to be coming to an end and ACC is moving into the transition stage. The chief officer – governance carried out a review of the arrangements and identified areas for improvement, demonstrating the maturity of the arrangements.

This review and findings has been reported to CMT and will report to the Urgent Business Committee for review and decisions as deemed necessary to further improve the arrangements.

Overall the Council have implemented their emergency arrangements and have continued to function and deliver services using these emergency arrangements, they have reviewed these in a reasonable timescale to understand improvement lessons, and are now ready to discuss implementing these. This shows mature Governance arrangements to allow for such changes not to impact on delivery, yet ensuring a level of governance to be maintained, and then improved where possible

Scrutiny

There is a high degree of scrutiny and challenge exercised by officers and members. This scrutiny is facilitated through the revisions to the committee structure and terms of reference which are regularly reviewed.

Standards of conduct for prevention and detection

The Council has a range of procedures for preventing and detecting fraud and irregularity including: a whistleblowing policy; fraud, bribery and bribery policy; and codes of conduct for members and officers. We assessed these to confirm that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

We consider that the Council has appropriate arrangements for the prevention and detection of bribery and corruption.

Annual Governance Statement

The Annual Governance Statement within the Council's annual accounts sets out the Council's conclusion on the effectiveness of governance and the basis for that conclusion. It describes the sources of assurance to support the Council's compliance with the seven principles of the CIPFA/SOLACE framework *Delivering Good Governance in Local Government*. The Annual Governance Statement includes areas where there is future development in governance and where governance issues have been identified. It concludes that the Council's Code of Governance operates effectively.

We previously reviewed the structure of the governance statement and management reflected recommended enhancements. In 2019-20 we recognise that it includes appropriate description of the impact of Covid-19 on governance arrangements.

We consider that the Annual Governance Statement shows an appropriate and accurate reflection of the Governance arrangements at the Council.

National Fraud Initiative (NFI)

The NFI in Scotland brings together data from local government, health boards and other public sector bodies. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud.

The Council submitted received matches for investigation during February 2020, to identify potential frauds or errors, with a deadline of 31 March 2020.

We completed a questionnaire considering the Council's participation in NFI for submission by 28 February 2020, with a generally positive conclusion.

Risk management

The Corporate Risk Register is reviewed by the CMT on a monthly basis, with Cluster Risk Registers maintained to manage operational risks. The Council has commenced an assurance mapping programme, to identify control gaps or control duplication.

Specific Covid-19 risk assessment and monitoring has been established.

Local Area Network ('LAN')

A Local Scrutiny Plan ('LSP') was presented to the 29 June 2019 ARSC and included no additional scrutiny by external audit in 2019-20. The LSP is based on a shared risk assessment undertaken by the LAN, comprising representatives from scrutiny bodies which engage with the Council.


KPMG chaired a meeting of the LAN on 20 February 2020, attended by Audit Scotland, Care Inspectorate and Education Scotland which supported risk assessment and information sharing. It did not give rise to any amendment to the audit strategy.


Internal audit

We considered the activities of internal audit against the requirements of Public Sector Internal Audit Standards ("PSIAS"), focusing our review on the public sector requirements of the attribute and performance standards contained within PSIAS.

Every local authority internal audit function must be externally assessed against the PSIAS once every five years. In 2017 we reviewed the internal audit function, covering the PSIAS requirements as well as comparisons to best practice for an entity with debt listed on the London Stock Exchange. Where recommendations for improvement were identified and agreed, Internal Audit brought proposed changes for approval by ARSC members.

During the year a re-profile of the work plan was carried out to align to the current risks the Council were facing.

 We reviewed internal audit reports and conclusions, and consider that they do not indicate additional risks and there was no impact on our audit approach. Internal audit's annual opinion confirmed, "that reasonable assurance can be placed upon the adequacy and effectiveness of the Council's framework of governance, risk management and control in the year to 31 March 2020."

 Open internal audit recommendations are monitored by officers and the remediation actions reviewed by Internal Audit prior to closure. The outstanding actions which were overdue was 39 as at 31 March 2020 this is an increase during 2020 compared to 14 as at 31 March 2019 and comparable to 45 as at 31 March 2018.

Transparency

Transparency continues to be an important aspect of good governance and is expected by stakeholders. The Council makes committee meeting agendas and minutes available online and reports are publicly available in advance of meetings. Full Council meetings are also webcast.

Having attended various committee meetings, we observed appropriate scrutiny, challenge and consideration of whether matters should be conducted as public items.

The Council's committees prepare and note annual committee effectiveness reports. Each committee's report sets out: delivery against the committee's terms of reference; officer and member attendance; a graphical summary of how committee reports align to LOIP categories; a summary of the number of committee decisions including those considered as exempt/confidential; civic engagement; and a section with a forward look to the next year's focus.

Further development of these reports is planned for 2020-21.

The Council also demonstrates transparency by:

- participating in the Local Government Benchmarking Framework ("LGBF") and providing access via its website;
- publishing Statutory Performance Indicators ('SPIs'); and
- reporting regularly on delivery against the LOIP.

We consider that the Council conducts its business in an appropriately transparent manner.

Our view – governance and transparency

The Council has continued to enhance its governance framework and has been awarded the CIPFA Governance Mark of Excellence. It exhibits strong and effective governance and has engaged with stakeholders to conduct self assessment and identify improvement opportunities.

Revisions have been made to governance in respect of operating during Covid-19, these are being subject to scrutiny and challenge by members, reported transparently and reassessed by officers.

Significant progress made in considering the impact and setting out the critical path of actions to be taken in respect of the impact on 2021-2023

Members robustly challenge and scrutinise management with a clear focus on the communities and citizens they represent, in respect of governance, process and matters presented for decision.

We consider that the Council operates in an appropriately transparent manner.



Best Value and Value for Money

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

To consider how effectively the Council demonstrates Best Value in its delivery of services we consider the audit findings across the four audit dimensions. This section includes our conclusions relating to the audit dimension of Value for Money which contribute the delivery of Best Value.

Best Value is assessed over the five-year audit appointment as part of our annual audit work. A Best Value Assurance Report ('BVAR') for each council will be considered by the Accounts Commission at least once in this five year period. The BVAR report for Aberdeen City is planned for the last year of the five year programme (2020-21). The deadline for completion may be extended due to Covid-19 and the proposed extension of external audit appointments by one year.

In 2019-20 our Best Value audit work focussed on the Council's arrangements for demonstrating Best Value in respect of Equal Opportunities

Best Value focus area: Equal Opportunities

How well does the organisation know the profile and needs of its diverse communities?

The Council has commissioned significant amount of work to understand the profile and needs of the diverse communities including:

- The Council has developed a British Sign Language (BSL) plan in conjunction with Aberdeen City Health and Social Care Partnership, to raise awareness, increase knowledge and understanding of Deaf culture, language and service provision throughout the Council, working with BSL stakeholder across the city to develop resources and information and to ensure that they are appropriate and relevant for their needs.
- The Council has produced an Equality Outcomes Mainstreaming Report which identified areas where work was done between 2017 and 2019 and also highlighted where work still needed to be developed. This report highlights the Community led initiatives including the wide range of Area/Forum/Networks that are being used to understand the needs of the diverse communities.

- Using available data and engaging with the diverse communities to fully understand the issues to develop a base position to develop the Equality outcomes for 2021 report.
- Data is collected through attendance in different community groups and forums
- Carry out family assessments for diverse communities (eg The Syrian New Scots group).
- Collect data on hate crimes and monitor the data as a consequence of change (eg Brexit).

An event was held in December 2018 to celebrate the city's progress in meeting its nine Equalities outcomes – and the launch of the local British Sign Language Plan

Do the organisation and its partners lead improvements in equality effectively?

The Council is a key stakeholder in the "integrate Grampian – Vision and Action Plan". The Integrate Grampian partnership has a vision for the region as an area that is welcoming to those who choose it as a place to live, work, study, bring up a family or start a business.

The Council set equal opportunities Performance indicators EO1: We have engaged and committed leaders [extended CMT and councillors], with the council and partners working together to reduce inequality, remove barriers and promote a culture of respect – this is tracked from an agreed baseline in 2017 with progress to current. Including further actions to further develop this area.

Other KPI's include:

- Learning provision in place to meet the needs of Gypsy / Traveller families;
- In Aberdeen there is a culture in which women's lives, opportunities and confidence are improved
- Aberdeen is a city of sanctuary with positive relations amongst Aberdeen's diverse communities, where everyone is welcome and respected, regardless of religion, belief or background; and
- Aberdeen is an LGBT+ friendly city and where LGBT+ communities can confidently express their identify and views.

Best Value focus area: Equal Opportunities

The Equality and Human Rights Commission (EHRC) have carried out local training sessions with partners in the City Region Deal, with a focus on achieving inclusive growth from Equality outcomes to Procurement, with Equalities to be explicit with any proposed projects in the City Regional deals. (including – flexible working, maternity / paternity leave and pay, prayer facilities, equal pay job evaluation, career progression for under-represented groups, appraisals, workforce diversity monitoring, procedures to deal with bullying.

At budget setting meetings over this period all budget options have benefitted from an Equalities Impact Assessment, so that the impact of budget decisions on communities is fully understood, therefore the Council effectively build equality into the decision making and scrutiny arrangements, this also includes consultations with the Unions, Priority groups, The Equality Ambassador Network (EAN).

The Council reports to the public on equality using the Equalities Outcomes Mainstreaming progress reports; these are provided in different formats including:

- Equalities newsletters;
- Website / videos;
- InterTrans service information;
- Different language, and
- Alternative formats.

Does the organisation provide equality of opportunity within a diverse workforce?

During 2017-19 ACC have gone through a significant period of change with the introduction of the TOM they have ensured that the equalities agenda remains a vital consideration across all services in the Council. This was done by engaging directly with the services who have been developing and updating strategies and policies, to ensure that equality issues have been given proper consideration.

The Council has set up the EAN up to:

- act as contacts on equality and diversity issues by signposting and sharing relevant equalities information with colleagues;
- To work towards creating and supporting a culture in which staff can participate and fulfil their potential in an environment where they are valued and respected.
- To make suggestions on equality and diversity policy and practice and promote good practice; and
- To help increase awareness of, become involved in and organise equality and diversity events and activities.

Some of the events that have taken place are detailed below:

- Held two lively myth busting sessions with representations from the deaf community and dyslexia;
- The North East Sensory Services ran a sensory impairment awareness training session;
- Autism awareness raising sessions;
- LGBT+ awareness raising sessions, and
- took place in Pride Aberdeen in May 2019.

Does the organisation deliver positive outcomes for its diverse communities?

The council monitors improved outcomes for the diverse communities through the reporting of a number equal opportunities performance indicators, which record achievements, opportunities for further development and action plans to ensure these are taken forward.

Changes in service and actions have delivered to the diverse communities:

- Online payment facilities;
- Disability improvements in Housing;
- Adjustment to waste management where customers need additional help;
- Integration programmes;
- Use of interpreters;
- Adjusting learning practice to accommodate difference;
- Autism special events;
- Engagement with services to link equalities to all strategies being developed; and
- Different language and brail used for reports.



Best Value focus area: Equal Opportunities

As part of all Service Level Agreements the Council requires all partners to report on Equality outcomes.

The Council have carried out an Equalities impact and risks assessment for the current Covid19 situation. This is to provide the employees of the council with the Tools and skills to provide appropriate services to the diverse communities they serve.

In addition to the above the Council have developed a Socio-Economic rescue plan which develops the risks and findings from the fall out of the economic closedown and simultaneous fall in hydrocarbon prices, this plan has at the heart of it the communities within Aberdeen who through a series of consultations have had opportunity to impact on the plan.

The plan considers the impact on various sectors of the community including:

- BAME;
- Lone Parents;
- Homeless;
- Young people, and
- Disabled.

Our view – Equal Opportunities

The Council has integrated Equal Opportunities into its practices and policies, it is trying to be forward looking in methods and ways to communicate to hard to reach communities.

The council is committed to make decisions that do not impact negatively on diverse communities through equalities impact assessments, clearly demonstrated by the assessment of Covid19 on various communities

It has set performance indicators and is measuring achievement and continues to further develop plans with future actions.

It is clear that the Council is acting as a leader in the region on Equal Opportunities

The Council is an equal opportunities employer.

Following the Public Pound

Appointed auditors are required to consider the Council's arrangements for compliance with the Code of Guidance on Funding External Bodies and Following the Public Pound ("the FtPP Code"). We have previously considered management's processes to comply with the FtPP Code through its local code of practice which applies the FtPP Code in the local context of the Council's interactions with its Arm's Length External Organisations ('ALEOs').

Effective monitoring and scrutiny of ALEOs has continued to be enabled through the ALEO assurance hub, which provides officers and elected members with regular reporting of all ALEOs as set out on page 35.

Options appraisal

The Council has a business case template for use as part of the project management toolkit. This includes the requirement to undertake an options appraisal and all committee reports seeking decisions are submitted with the implications of recommended option. These implications include the impact of decisions on LOIP themes. Four control boards operate to oversee and act as gateways for business cases and options appraisal. Having considered the terms of reference and business case templates, we consider that the arrangements for options appraisal are robust and appropriate.

Income maximisation and risk management in commercial arrangements

As noted on page 33 we consider that the legal agreements and basis of arrangements third parties, to the extent reviewed as part of the audit, generally have suitable clauses which aim to minimise the financial risk to the Council which is good practice. They also often incentivise partners to seek to perform well and increase the return earned by the Council.

These arrangements are extremely complex and while the Council has identified staff responsible for their operational management, we consider that their scale and value could warrant dedicated resource to ensure maximum value is obtained and to manage contract risks.

Recommendation two (page 50)



Our view – value for money

There is a robust Performance Management Framework which ensures that Council performance is monitored and scrutinised. Progress reporting is transparent and includes targets, trend analysis and is provided in full detail and summary level to enhance stakeholder engagement.

The use options appraisal, scrutiny and challenge supports delivery of value for money.

The Council enters into complex arrangements with third parties for example, to operate P&J Live, hotels or support the development of land and value obtained from investment property. To the limited extent considered during the audit, we consider that these generally have suitable clauses to minimise financial risk to the Council and incentivise income generation. However, in the current Covid-19 environment the risk of unexpected clauses being invoked should be assessed and monitored by officers and members. In addition we consider their complexity could merit greater monitoring and management to ensure maximum benefit is achieved.

Our view – Best Value

Building upon the clear vision and objectives which the leadership has established in the LOIP, improvement actions, responsibility and monitoring arrangements are well established.

There is effective scrutiny and challenge, and we recognise that the Council has continued to revise governance arrangements and its structure to support delivery of the Target Operating Model.

Self-assessment and consideration of the views of stakeholders informs identification of governance improvement opportunities.

Public Performance Reporting is appropriate and transparent.

Equal Opportunities








The Council has a proactive approach to Equal opportunities and arrangements in place that should help to deliver equal opportunities to the diverse communities, and also to the workforce of the Council





















Appendices

Required communications with the Audit, Risk and Scrutiny Committee **DRAFT**

Type	Response
Our draft management representation letter	 We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2020.
Adjusted audit differences	 There were seven adjusted audit differences with an increased deficit impact of £97.6 million . See appendix three.
Unadjusted audit differences	 The aggregated deficit impact of unadjusted audit differences would be £3.6 million . In line with ISA 450 we request that you adjust for these items. However, they will have no effect on the opinion in the auditor's report, individually or in aggregate. See appendix four.
Related parties	 There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit, Risk and Scrutiny Committee	 There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	 We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	 No actual or suspected fraud involving Group or Component management, employees with significant roles in Group-wide internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit.

Type	Response
Significant difficulties	 No significant difficulties were encountered during the audit.
Modifications to auditor's report	 None.
Disagreements with management or scope limitations	 The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	 No material inconsistencies were identified related to other information in the annual accounts. The Management Commentary is fair, balanced and comprehensive, and complies with the law.
Breaches of independence	 No matters to report. The engagement team and others in the firm, as appropriate, the firm and, when applicable, KPMG member firms have complied with relevant ethical requirements regarding independence.
Accounting practices	 Over the course of our audit, we have evaluated the appropriateness of the Group's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
Significant matters discussed or subject to correspondence with management	 The key audit matters (summarised on pages ten to 14) arising from the audit were discussed, or subject to correspondence, with management.

Additional report relating to EU Public Interest Entities

Type	Response
Our declaration of independence	 No matters to report. The engagement team has complied with relevant ethical requirements regarding independence.
Key audit partner(s)	 We have identified each key audit partner at page three in our Audit Strategy report dated 3 February 2020.
Independence of external experts engaged by KPMG and non-KPMG auditors	 We have not engaged external experts or engaged non-KPMG auditors for the performance of aspects of our group audit.
Communications with audit committee and management	 We have described the nature, frequency and extent of communication with the ARSC and management in our Audit Strategy report dated 3 February 2020.
Scope and timing of the audit	 We have described the scope and timing of the audit at pages in our Audit Strategy report dated 3 February 2020.
Audit methodology	 Our audit methodology is described at page six in this report.
Valuation methods	 On page nine (and in the accounting policies of the annual accounts), we report the valuation methods applied to the items in the financial statements and the impact of any changes.
Going concern assessment	 There are no significant matters affecting the entity's ability to continue as a going concern.
Requested explanations and documents	 No matters to report. All requested explanations and documents were provided by management.

Type	Response
Materiality	 Quantitative materiality applied to the audit of the financial statements as a whole and materiality for balances/disclosures affected by qualitative factors is set out in our Audit Strategy report dated 3 February 2020.
Non-compliance with laws and regulation or articles of association	 No actual or suspected non-compliance with laws and regulation or articles of association were identified during the audit.
Significant deficiencies in internal control	 There are no significant deficiencies to report in this report or our report dated 3 February 2020.
Significant difficulties	 No significant difficulties were encountered during the audit. The significant matters (pages eight to 14) arising from the audit were discussed, or subject to correspondence, with management. In our professional judgment, no matters arose from the audit that were significant to the oversight of the financial reporting process.
Non-KPMG component auditors	 We did not rely on the work of any non-KPMG component auditors in 2019-20.
Management's approach to consolidation	 We report on management's approach to consolidation on page 21 .It is consistent with the Code. The consolidated financial statements include all material subsidiaries.
Independence – Relationships and audit fees	 No relationships have been identified between the firm, and the entity that, in our professional judgment, may reasonably be thought to bear on independence. We received £275,270 of fees during the period covered by the annual accounts for audit services provided by the firm and KPMG member firms to the entity and components controlled by the entity. There were no non-audit fees receivable.

Assessment of our objectivity and independence as auditor of Aberdeen City Council (“the Council”)

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP’s objectivity and independence, the threats to KPMG LLP’s independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP’s objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values;
- Communications;
- Internal accountability;
- Risk management; and
- Independent reviews.

The conclusion of the audit engagement director as to our compliance with the FRC Ethical Standard in relation to this audit engagement and that the safeguards we have applied are appropriate and adequate is subject to review by an engagement quality control reviewer, who is a partner not otherwise involved in your affairs.

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations relating to the provision of non-audit services

Summary of fees

We have considered the fees charged by us to the Council and its affiliates for professional services provided by us during the reporting period. We have detailed the fees charged by us to the Council and its related entities for significant professional services provided by us during the reporting period overleaf, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted.

Total fees charged by us for the period ended 31 March 2020 can be analysed as follows (there are no future services - contracted or with written proposal submitted, with the exception of continuing audit services).

Total fees charged by us for the period ending 31 March 2020 can be analysed as follows:	2019-20 continuing (inc VAT) £	2018-19 (inc VAT) £
Audit of the Council’s financial statements	264,710	254,500
Audit of subsidiaries (Aberdeen City Council Charitable Trusts)	10,560	10,320
Total audit services	275,270	264,820
Non-audit services	-	-
Total	275,270	264,820

The ratio of non-audit fees to audit fees for the year was 0 : 1. We do not consider that the total non-audit fees create a self-interest threat.

Joint ventures

We are appointed by the Accounts Commission via Audit Scotland as external auditor of Aberdeen City Council Charitable Trusts and Aberdeen City Integration Joint Board.

We are also appointed as external auditor of Aberdeen Sports Village Limited, a subsidiary of the Council, this is not an appointment of the Accounts Commission.

Contingent fees

Under the FRC's Revised Ethical Standard, no new tax contingent fees for listed entities can be entered into after 17 June 2016. We confirm that no new contingent fees for tax services have been entered into for the Council since that date.

Supplier relationship

KPMG LLP paid £x to the Council in the year ended 31 March 2020, in relation to rent, rates and services. This is not material to the Council or to KPMG LLP and we note that it is at a commercial "arm's-length" rate.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit, Risk and Scrutiny Committee.

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit, Risk and Scrutiny or Urgent Business Committee and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

KPMG LLP

Appendix three

Audit differences - adjusted

DRAFT

The table below lists the adjusted audit differences identified during the course of our 2019-20 audit procedures. In addition to the audit adjustments, we identified disclosures within the annual accounts which required amendment related to **the basis of preparation, estimates and judgements, capital commitments and the remuneration report.. We have not yet reviewed the revised financial statements which incorporate the proposed adjustments. Certain amounts are subject to finalisation of audit procedures as previously noted.**

Adj	Nature of adjustment	Balance sheet		Income and expenditure account	
		£'000 DR	£'000 CR	£'000 DR	£'000 CR
1	Dr Property Plant and Equipment	266,640			
	Cr Investment Property		266,640		
Being reclassification of the Exhibition Centre site into Operational Assets					
2	Cr Property Plant and Equipment		20,661		
	Cr Investment Property		60,771		
	Dr Trading Property Letting			60,771	
	Dr Cost of Service – Resources			20,502	
	Dr Cost of Service – Operations			159	
Being the Impairment of the components on the TECA site following valuation.					
3	CR Property Plant and Equipment		152		
	Dr Short Term Creditors	152			
Being the over accrued position on a capital project.					
4	Dr Property Plant Equipment - Council Housing Stock	3,656			
	Cr Assets Held for Sale		£3,656		
Being Reclassification of Right to Buy Houses incorrectly categorised.					

Audit differences – adjusted (continued)

Adj	Nature of adjustment	Balance sheet		Income and expenditure account	
		£'000 DR	£'000 CR	£'000 DR	£'000 CR
5	Property Plant and Equipment	1,765			
	Sundry Debtors	2,126			
	Short Term Creditors		3,787		
	Grant receipts in advance	425			
	Taxation and Non Specific Grant Income				529
	Being the correction of missing accruals				
6	Short Term Borrowing	5,000			
	Long Term Borrowing		5,000		
	Being the correction of the borrowing due with 12 months				
7	Cr Cost of Service – Past Service Costs			16,700	
	Dr Retirement Benefit	16,700			
	Being the correction of the Impact of McCloud on DBO.				
	Total	295,764	360,667	98,132	529

Audit differences - Unadjusted

The table below lists the unadjusted audit differences identified during the course of our 2019-20 audit procedures. These adjustments are not considered material.

Adj	Nature of unadjusted difference	Balance sheet		Income and expenditure account	
		£'000 DR	£'000 CR	£'000 DR	£'000 CR
1	Interest Payable				3,609
	Bond Carrying Value	3,609			
Being correction of the overstatement of the Bond Carrying Value.					
	TOTAL	3,609			3,609

Finding(s) and risk(s)	Recommendation	Agreed management actions / audit update 2019-20
1. Year end Accruals process <i>Audit dimensions: financial management – Accounts preparation</i>		Grade two
<p>Testing of the year end cut-off identified two significant payments that were made for capital works completed in March 2020, however the formal approval of the works and payment took place in April 2020. The financial statements to 31 March 2020 should reflect all works completed to 31 March 2020 and as such these payments should be accrued into the Financial Statements for year to 31 March 2020, and not in April 2020.</p>	<p>It is recommended that the Council review its year end accruals processes to reflect the requirements of the Accrual concept, and or review its accounting policy to reflect the actual accruals practice for Accruing Capital works completed in year and signed off in the following year.</p>	<p>Timing for preparation of the draft accounts and deadlines set to achieve this was the reason for the omission.</p> <p>Agreed: to review year end instructions to ensure appropriate accruals are identified and recorded.</p> <p>Implementation Date: Deadline 31 December 2020.</p>
2. TECA commercial arrangements <i>Audit dimensions: financial management</i>		Grade two
<p>Testing of the detailed and complex commercial agreements that the are in place for the components of the TECA site has identified that for the Council to fully benefit from these legal agreements and manage associated risks, very close scrutiny and management of those contracts will be necessary.</p>	<p>It is recommended that the Council continue to work with operators to ensure there is sufficient and appropriate challenge to maximise benefit to the Council, and complete the post project evaluation as reported to the Capital Committee in November 2019.</p>	<p>Agreed.</p> <p>Implementation date: March 2021 for deadline.</p>

Prior year recommendations

We follow up prior-year audit recommendations to determine whether these have been addressed by management. The table below summarised the recommendations made during the 2017-18 and 2016-17 audits and their current status. We provide a status update below.

Year	Number of recommendations	Fully Implemented	In progress at June 2020
2017-18	4	0	3
2016-17	2	0	1

Finding(s) and risk(s)	Recommendation	Agreed management actions / update 2019-20
1. Regular user access appropriateness review <i>Audit dimensions: governance and transparency</i>		Grade one
<p>There is no regular review performed of user access to determine if the access is appropriate for active business users on the AIRS and Infosmart application, database and operating system (including privileged user access).</p> <p>User access is reviewed for the Oracle e-Financials and the Orbis Northgate applications, but the review does not establish if the user access assigned is appropriate for an individual's current role.</p> <p>Risk:</p> <p>Where user access is not reviewed on a regular basis, the risk is increased that individuals may gain or retain unauthorised access rights that are not needed for their business role. This can lead to controls and segregation of duties being by-passed, leading to erroneous or fraudulent transactions being processed.</p>	<ul style="list-style-type: none"> — Management should perform a periodic review of user access assigned to ensure that this is appropriate at the application, database and operating system level. — This should include an assessment of user access across the production, development and test environments to ensure appropriate segregation of duties exist. — Where inappropriate access is identified, this should be investigated and removed in a timely manner. — The review should be formal, documented and retained as evidence for audit purposes. 	<p>Original response: Agreed. Digital and Technology will lead on the implementation of this action, in conjunction with system owners to ensure consistency across all systems.</p> <p>Implementation date: 31 August 2018</p> <p>Responsible officer: Incident & Problem Co-ordinator, in conjunction with System Owners.</p> <p>Status update 2018-19: In progress.</p> <p>Whilst an email was circulated to all system owners within the Council advising them to remove any users who no longer required access to the system, this did not constitute a formal, documented and evidenced review suitable for audit purposes. We further note that this review appeared to be a one-off exercise, as opposed to periodic business-as-usual activity (e.g. quarterly user recertification).</p> <p>We note that the review did not consider the level of user access across environments to ensure appropriate segregation of duties between these environments. As the review was not formal in nature, there was no evidence of inappropriate access being further investigated and removed in a timely manner.</p> <p>Management response 2018-19: See page 55.</p> <p>Status update 2019-20: An ICT Access Control policy has been established. It includes appropriate principles regarding starters, leavers and amendments to user access. While it further reduces risk, it is not clear how access will be reviewed as recommended opposite.</p>

Prior year recommendations (continued)

2017-18

Finding(s) and risk(s)	Recommendation	Agreed management actions / update 2019-20
2. Assignment of highly privileged access and monitoring of access <i>Audit dimensions: governance and transparency</i>		Grade one
<p>Certain IT and business staff are assigned highly privileged access to the Council's IT systems (Oracle e-Financials, Orbis Northgate and Airs), required to perform user administration activities (e.g. assigning and changing user access rights), system development and configuration, and to ensure ongoing support and maintenance activities.</p> <p>We note that the Council does not monitor the activities performed by these accounts; security and event log auditing is either not enabled or not reviewed. For the purpose of relying on system generated reports for the external audit, we could not establish if the activities performed by these users were appropriate during the year . The weaknesses in the access assigned includes:</p> <ul style="list-style-type: none"> — The privileged access assigned allows users within the business to perform activities that should be segregated and/or pro-actively logged and reviewed to ensure appropriate; and — The Oracle e-Financials and Orbis Northgate system administrators within the business can make direct changes to the data within the underlying database and bypass system controls (not logged); and — A shared system administrator account is used for Airs by two members of business staff (not logged). — Risk: - Where privileged user access is not robustly controlled the risk is increased that: <ul style="list-style-type: none"> — unauthorised access is gained to process erroneous or fraudulent transactions, make changes to data, and system settings; — unauthorised changes are not detected and appropriate action taken; — IT / operational system downtime is experienced; and — the system does not function as intended by management. 	<p>Management should ensure that:</p> <ul style="list-style-type: none"> — A formal, documented and agreed policy is established that guides the Council's management of highly privileged access. — The sharing of the user accounts is investigated, risk assessed and the root cause is understood. — User accounts are only used by the approved and appropriate persons. — Each time the highly privileged accounts are used there should be a requirement that a supporting and approved incident ticket or change request is logged and retained. — The feasibility of implementing system audit logging for these highly privileged accounts is assessed, and if this is possible, a periodic review is performed over a sample of higher risk activity to ensure this was authorised and appropriate. — The logs are secured and retained in a segregated area that cannot be accessed by the users of the IT systems. 	<p>Original response: Agreed. Digital and Technology will lead on the implementation of this action, in conjunction with system owners to ensure consistency across all systems.</p> <p>Implementation date: 31 August 2018</p> <p>Responsible officer: Incident & Problem Co-ordinator, in conjunction with System Owners</p> <p>Status update 2018-19: In progress.</p> <p>Whilst a formal policy has been established to manage the Council's use of highly privileged access (as part of the overarching ICT Access Control Policy), there is scope for improvement in the day-to-day management of how these accounts are used.</p> <p>We note that there is currently no requirement to raise an incident or change ticket for each use of a privileged account, and we were not provided with any evidence of root cause analysis or restriction of privileged account sharing for AIRS.</p> <p>We note that audit logging is enabled for Orbis Northgate, eFinancials and Infosmart and the logs are securely stored in a segregated area , but regular reviews of these logs are not currently carried out.</p> <p>Management response 2018-19: See page 55.</p> <p>Status update 2019-20: An ICT Access Control policy has been established. It includes appropriate principles and sets expectations of users and system owners in respect of highly privileged access and logging. While it further reduces risk, it is not clear how access will be reviewed as recommended opposite.</p>

Prior year recommendations (continued) 2017-18

Finding(s) and risk(s)	Recommendation	Agreed management actions / update 2019-20
3. Changes to IT systems <i>Audit dimensions: governance and transparency</i>		Grade two
<p>There is no system generated log of changes to show the full population of changes to the Council’s IT systems (Oracle e-Financials, Orbis Northgate and AIRS). for example changes to underlying system code or configuration. Management is therefore unable to review the changes made to the system to ensure these are appropriately approved and tested.</p> <p>It is also noted that the system administrators for Oracle e-Financials and Orbis Northgate have access to the production, test and development environments.</p> <p>Risk:</p> <p>Where a system generated log of changes is not available and reviewed, the risk is increased that changes are made to the IT systems that do not function as intended.</p> <p>The risk is further increased where:</p> <ul style="list-style-type: none"> — user access is not reviewed on a periodic basis (as identified by internal audit in the Finance Systems review); — passwords to highly privileged user accounts are shared (finding 2); and — access to the production, test and development IT system environments are not segregated (this finding). 	<p>Management should ensure that:</p> <ul style="list-style-type: none"> — Access to the production, test and development IT system environments are appropriately segregated, and any exception is risk assessed and approved. — The feasibility of implementing a system generated change log for the application, database, and operating system is considered. Further, a sample of higher risk changes should be reviewed by an independent person on a periodic basis to identify if changes have been approved and tested. 	<p>Original response: Agreed. Digital and Technology will lead on the implementation of this action, in conjunction with system owners to ensure consistency across all systems.</p> <p>Implementation date: 31 August 2018</p> <p>Responsible officer: Incident & Problem Co-ordinator, in conjunction with System Owners</p> <p>Status update 2018-19: In progress.</p> <p>We note that there is no system generated changed log covering changes to key financial systems, and consequently no review of such changes being adequately approved and tested prior to release. Major changes to IT systems do come through the ACC Change Advisory Board, but cannot conclude that this covers all changes to IT systems.</p> <p>We were not made aware of risk assessment and / or approval relating to system administrators having access to multiple environments.</p> <p>Management response 2018-19:</p> <p>See page 56.</p> <p>Status update 2019-20: The management actions outlined on page 56 are appropriate but their successful implementation has not been tested by external audit to date as no reliance was planned on general IT controls and the recommendation therefore remains open. This will be reviewed in 2020-21.</p>

Prior year recommendations (continued) 2017-18

Finding(s) and risk(s)	Recommendation	Agreed management actions / update 2019-20
4. Password parameters configuration <i>Audit dimensions: governance and transparency</i>		Grade two
<p>The Council has established a range of information security policies and procedures which set out the minimum password parameters required.</p> <p>Our review identified the following which is not in line with the Council's information security policies and procedures:</p> <ul style="list-style-type: none"> — The Infosmart application does not have any password parameters assigned for the system administrator's accounts (the Council specifies these should be enforced). — The Airs application system administrator password has never changed (the Council specify these should be changed). — The Northgate application minimum password length is six characters (the Council specify this should be eight characters). <p>Risk:</p> <p>Where the passwords have weak configurations or are not compliant with the security policies approved by the Council, there is a risk that unauthorised users can have access to the applications. This could lead to system downtime, data not processed completely and accurately, or system changes that do not function as intended.</p>	<ul style="list-style-type: none"> — Management should review the password parameters and ensure that they are appropriate at the application, database and operating system level. — Where password parameters can not be implemented in line with minimum requirements, this should be risk assessed on a periodic basis and formally approved by the business and IT (e.g. IT security function). 	<p>Original response: Agreed. Digital and Technology will lead on the implementation of this action, in conjunction with system owners to ensure consistency across all systems.</p> <p>Implementation date: 31 August 2018</p> <p>Responsible officer: Incident & Problem Co-ordinator, in conjunction with System Owners</p> <p>Status update 2018-19: In progress.</p> <p>The minimum password length for the Orbis Northgate NDR application was updated to meet the ACC Password Standard .</p> <p>The Infosmart application uses Single Sign On, and therefore does not meet the enhanced requirements for administrator accounts, and we have not been provided with evidence of risk assessment or approval of this by ACC.</p> <p>We were not provided with evidence to suggest that the AIRS system administrator password has been changed since last year's audit.</p> <p>Management response 2018-19:</p> <p>See page 56.</p> <p>Status update 2019-20: complete</p> <p>A password standard was established as part of the ICT Access Control Policy which includes use of more complex passwords for administrator and privileged accounts.</p> <p>It is considered that the actions taken meet the original recommendation were possible and this recommendation is closed as complete.</p>

The 2018-19 management response to the first four prior year recommendations are provided on this page and the next page. The 2019-20 update is included against the original action.

1. Regular user access appropriateness review	Grade One
<p>Proposed action:</p> <p>Services will implement a documented and evidenced review process against user access related to their systems with ICT assistance where appropriate. AIRS will not have this functionality. With continued development of our Identity and Access Management (IDAM) platform we would aim to bring in these systems into IDAM over time.</p> <p>EFinancials - To implement.</p> <p>Orbis - all users are required to confirm their ongoing need for access and levels of access required - including providing reason for access - on a rolling annual basis. Essentially, an Access database recording all users of Revenues and Benefits system (Orbis, Academy and URB) which incorporates a diary function prompting service to issue users with their annual system access review. A copy of the review form and screenshots of the database to illustrate functionality/control in place is provided to External Audit.</p> <p>Infosmart - Will implement a process similar to Orbis.</p> <p>User access to Development, Test and Live environments is segregated in that they are on different servers, different log on paths and use different usernames and passwords. These measures go towards mitigating potential risk. Many of the same users that use live environments also have to do testing and the test systems are also used to do training. We believe this segregation is adequate and meets the requirement.</p> <p style="text-align: right;">Implementation date: 31 August 2019</p> <p>Responsible officer: System Owners for D&T, EFinancials, Orbis, Infosmart.</p>	
2. Assignment of highly privileged access and monitoring of access	Grade One
<p>Proposed action:</p> <p>It is impractical to raise a change each time an elevated account is used. The AIRS 'system' is an Access Database and can only have one password which is restricted to two users. For EFinancials, Orbis and Infosmart systems, ICT will, where possible, share activity logs with the service monthly so they can ratify admin access and activity against their own record of change.</p> <p>EFinancials - a record of changes made to the database and also any fixes applied to the application are being kept. These have been reviewed by the service. This record is provided to External Audit and we believe this meets the requirement.</p> <p>Orbis - already keeps an audited record of all log-ins, plus a specific additional level of audit to record all changes to Security Permissions however logs are not regularly reviewed. The Service concerned will introduce a review process. We believe this meets the requirement.</p> <p>Infosmart - Paperwork backs up any change and the service will implement quarterly spot check to validate requested amendments were processed appropriately.</p> <p>Responsible officer: System Owners for D&T, EFinancials, Orbis, Infosmart. Implementation date: 31 July 2019</p>	

Prior year recommendations (continued) 2017-18

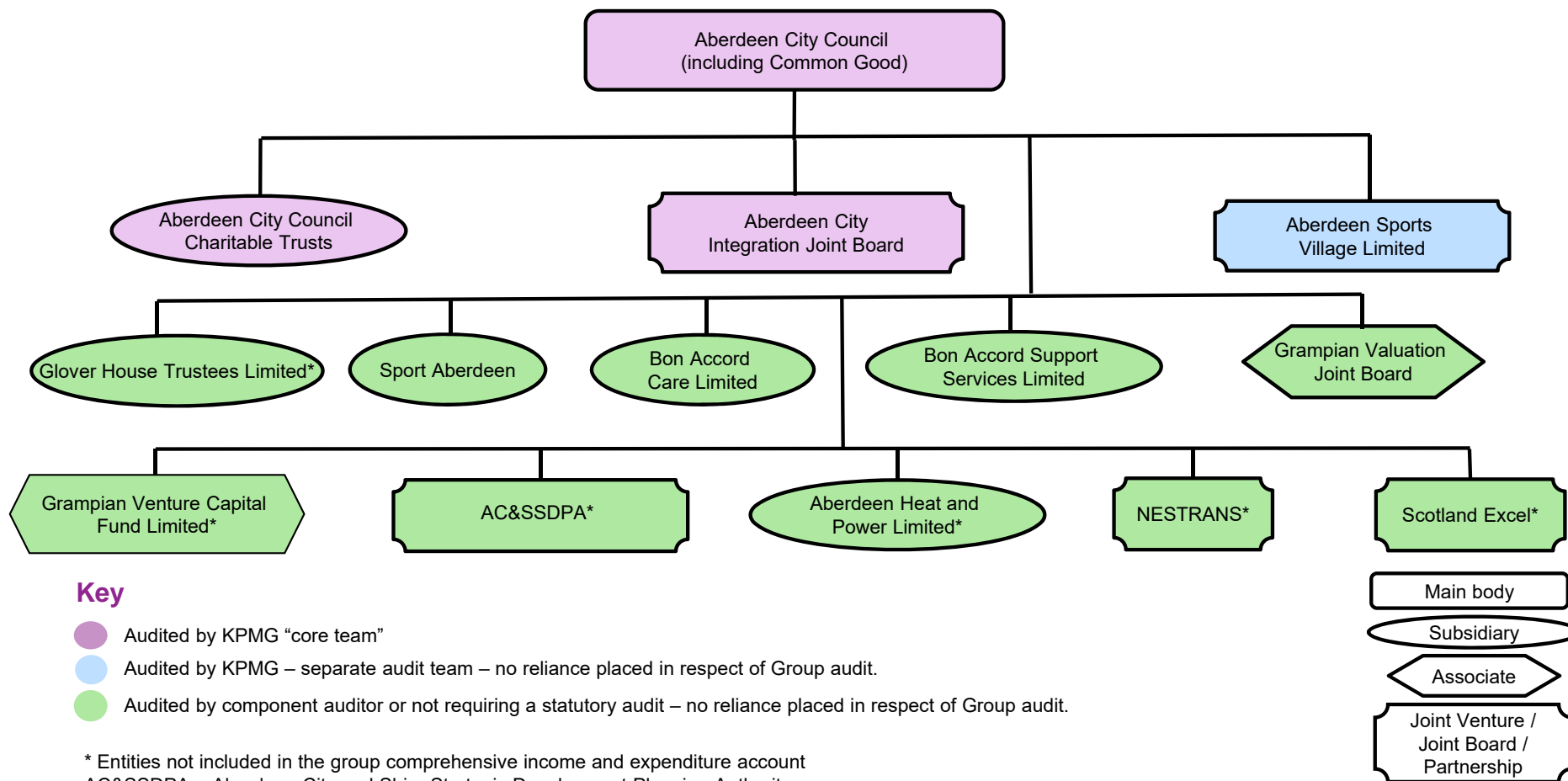
The 2018-19 management response to the first four prior year recommendations are provided on this page and the previous page. The 2019-20 update has been included on the page and the previous page.

<p>3. Changes to IT systems</p>	<p>Grade Two</p>
<p>Proposed action: Low level changes would not come through the ACC ICT Change Board. Medium to high changes do, in line with ACCs Change Control Policy. The Digital and Technology service will investigate systems for use of automatic change logs. EFinancials - a record of changes made to the database and also any fixes applied to the application are being kept. These have been reviewed by the service. This record is provided to External Audit and we believe this meets the requirement. Orbis - will be implemented with immediate effect. Infosmart - will discuss with other service to establish what record they keep and a similar process will be put in place.</p> <p>Responsible officer: System Owners for D&T, EFinancials, Orbis, Infosmart. Implementation date: 31 July 2019</p>	
<p>4. Password parameters configuration</p>	<p>Grade Two</p>
<p>Proposed action: Infosmart is using single sign on which uses AD accounts which force password length and complexity for standard accounts. Admins log in directly using the complexity rules of the system. Digital and Technology will investigate the rules to see if they can force passwords to match the password policy. If it is not able to, all admin users will be pointed to the policy and asked to confirm their passwords meet the standard. AIRS password has been changed and with the system owner confirming this to IT by Email as evidence. The services consider that this action is met.</p> <p>Responsible officer: Service System Owners in conjunction with IT Implementation date: 31 August 2019</p>	

Prior year recommendations (continued)

2016-17

Finding(s) and risk(s)	Recommendation	Agreed management actions / audit update 2019-20
1. Complex accounting treatments <i>Audit dimensions: financial management</i>		Grade two
<p>Accounting for the bond issuance is complex and involves the calculation of an effective interest rate based on future forecast cashflows. Transactions for the bond were not included in the draft accounts, and were not agreed until late in the process.</p> <p>The Council has a number of ongoing projects which will have similar complex accounting treatments. There is a potential risk that accounts may contain significant errors or be delayed if complex accounting treatments are not agreed early or adequately documented.</p>	<p>For future complex financial transactions we recommend that management considers the accounting implications prior to the transaction taking place, and provide an accounting paper before the year end, to ensure these transactions can be agreed and incorporated into the draft financial statements.</p> <p>Status update 2017-18: In progress.</p> <p>While documentation was enhanced in respect of some areas, including bond accounting and preparation of a technical analysis in respect of lease classification of Marischal Square, there is scope for further improvement.</p>	<p>Responsible officer: Senior Accountant.</p> <p>Status update 2018-19: In progress.</p> <p>There is evidence of review of complex areas of accounting, generally without exceptions being identified. However, a material misstatement was identified during the audit in respect of accounting for Lochside Academy. It is recommended that for material complex arrangements, an accounting paper is prepared by Finance and is subject to senior officer review.</p> <p>2019-20 Update</p> <p>The review of the work around bringing the TECA site from Assets under Construction into operational and investment properties provided further evidence that the accounting paper and senior officer review had not taken place, and so the recommendation still stands.</p>



Grant claims and WGA return

We set out below the “other reporting” responsibilities of our audit appointment. We will update the next UBC or other committee meeting should there be any exceptions arising from the testing.

RETURN	DESCRIPTION	STATUS
Whole Government Accounts (“WGA”)	WGA is the consolidated financial statements for all components of government in the UK. Most public bodies are required to provide information for the preparation of WGA. External auditors are required to review and provide assurance on WGA returns over a prescribed threshold.	Report due September 2020.
Non Domestic Rates (“NDR”)	NDR in Scotland is collected by local authorities on an agency basis and notionally placed in a national ‘pool’, which is then redistributed among authorities based on each authority’s estimated collection levels. In April each year, authorities submit an estimate of their expected NDR following the year end, authorities are required to submit their actual NDR yield, known as ‘the notified amount’ in a final return to the Scottish Government.	Report due August 2020.
Housing Benefits (“HB”)	The HB subsidy scheme is the means by which local authorities claim subsidy from the Department for Work and Pensions (“DWP”) towards the cost of paying HB in their local areas. Claimants benefits either by direct application to the authority or by applying simultaneously for income support/jobseekers allowance and HB to the DWP. Eligibility for, and the amount of, HB is determined in all cases solely by the local authority. Monthly instalments of subsidy are made by the DWP on the basis of authorities’ estimates in March and August. Final subsidy claims are made on claim form MPF720B which requires to be certified by the external auditor.	Report due November 2020.
Education Maintenance Allowance (“EMA”)	EMA is a means tested weekly allowance payable to young people from low income families to encourage them to remain in education beyond the compulsory school leaving age. Local authorities manage the delivery of the EMA programme in respect of schools, home education, and all other learning other than college provision. EMA payments comprise a weekly allowance and are made by local authorities to eligible young people. The Scottish Government reimburses the costs incurred by authorities through monthly payments of grant. An allowance for the costs of administering the programme is also paid by the Scottish Government.	Report due July 2020.

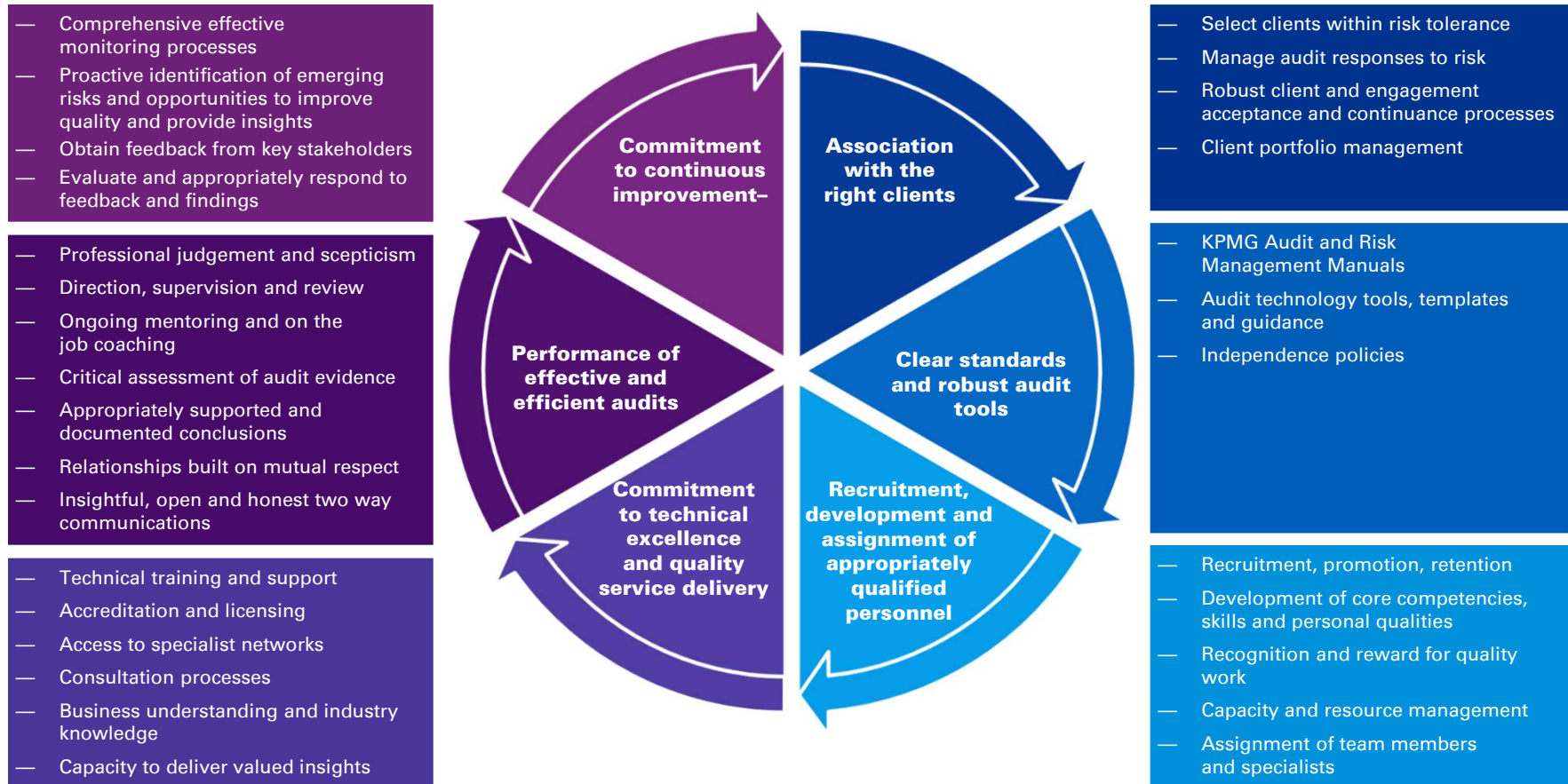
Appointed auditor's responsibilities

AREA	APPOINTED AUDITOR'S RESPONSIBILITIES	HOW WE HAVE MET OUR RESPONSIBILITIES
Statutory duties	Undertake statutory duties, and comply with professional engagement and ethical standards.	Appendix two outlines our approach to independence.
Financial statements and related reports	<p>Provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions.</p> <p>Review and report on, as appropriate, other information such as annual governance statements, management commentaries, remuneration reports, grant claims and whole of government returns.</p>	<p>Page five summarises the opinions we currently expect to issue.</p> <p>Pages 19 and 20 report on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report.</p> <p>We have not yet issued opinions in respect of grant claims and whole of government accounts.</p>
Financial statements and related reports	Notify the Auditor General or Controller of Audit when circumstances indicate that a statutory report may be required.	Reviewed and concluded on the effectiveness and appropriateness of arrangements and systems of internal control, including risk management, internal audit, financial, operational and compliance controls.
Corporate governance	Participate in arrangements to cooperate and coordinate with other scrutiny bodies.	Page 37 includes arrangements to cooperate and coordinate with other scrutiny bodies.
Wider audit dimensions	<p>Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies':</p> <ul style="list-style-type: none"> - Effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets; - Suitability and effectiveness of corporate governance arrangements; - Financial position and arrangements for securing financial sustainability; - Effectiveness of arrangements to achieve best value; and - Suitability of arrangements for preparing and publishing statutory performance information 	We set out our conclusions on wider scope and best value in from page 23 onwards.

KPMG's Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework





The contacts at KPMG in connection with this report are:

Michael Wilkie

Director

Tel: 0141 300 5890

michael.wilkie@kpmg.co.uk

Matthew Moore

Tel: 0131 231 3663

matthew.moore:@kpmg.co.uk

Leticia Barbosa

Assistant Manager

Tel: 01224 416 871

leticia.Barbosa@kpmg.co.uk



© 2020 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.